Issues and Alternatives·1976

Ontario Economic Council

Housing

HOUSING

ISSUES AND ALTERNATIVES

1976

ONTARIO ECONOMIC COUNCIL

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PREFACE

The most striking feature of public affairs during the past two decades has been the rapid growth in the size and complexity of government. Reflecting this development, the Ontario Economic Council two years ago decided to focus much of its attention on government expenditure programs, particularly in the four fields of health, education, urbanization, and social security. In considering each of these fields, special emphasis has been given to two basic themes: the size, growth and effectiveness of public expenditure programs; and the impact of these programs upon the personal distribution of income and wealth.

In addition to its work on public expenditure programs, the Council has also given priority to two related topics: national independence and the development of Northern Ontario, both of which pose long-standing concerns.

This is one of a series of papers that the Council is issuing on each of the six areas where we are concentrating our attention at present. The purpose of these papers is to highlight the principal issues, as we see them, and to provide a framework for discussion about improvements in governmental policies in these areas.

In this paper we raise what we regard as the most pressing issues of the day concerning housing policy. We also offer suggestions which we believe warrant further examination for alternative policy approaches to these issues. The Council itself is undertaking research to explore some of the questions that arise, which will be made public as it is completed.

It is the Council's hope that this report will make a useful contribution to the evolution of public policy in the housing field.

While each member of the Ontario Economic Council does not necessarily subscribe completely to everything said in this report, the report does reflect a strong consensus of Council Members' views.

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I. INTRODUCTION

There exists in Ontario what has been variously called a housing "shortage", a housing "problem", — even a housing "crisis".

The situation is felt to be severe, and likely to increase in severity over the next five or ten years.

The purpose of this paper is to provide a systematic examination of Canadian housing policy as it operates in Ontario. "Housing policy" is considered to include policies related both to detached houses and apartments.

Although the responsibility for housing rests with the provinces under Section 92 of the *British North America Act*, one would be myopic if only the activities of the provinces were examined in an effort to discover how public policy has responded to the housing problem. The federal, provincial and municipal levels of government, often in co-operation, often in competition, have programs designed to mitigate the housing problem.

Recognizing its limitations, but arguing strongly for its relevance, this examination will be from the viewpoint of the economist. The paper examines, in the sections which follow, the nature of the housing problem, the functioning of the housing market, current policy responses, apparent difficulties with these policies, and possible alternative policies which might be considered. The paper therefore proceeds in a manner similar to that which might be adopted by a decision-maker in developing a policy initiative.

The involvement of the government sector in the housing market is widespread, ranging from the regulation of lighting fixtures to the provision of mortgage funds and to the actual building of houses. The financial commitments of government are large, both in the form of loans and in the form of direct expenditures. These are documented in Tables 1, 2 and 3 that follow. Over $1 billion in loans was advanced at the federal level for housing programs in 1974; over $150 million was spent on grants and subsidies. More than one third of these federal funds were allocated to Ontario. The Government of Ontario, in addition, advanced $230 million in loans and spent $27 million in subsidies. As the data show, the commitments of loan funds have not risen significantly in recent years, although direct expenditures have risen dramatically.

TABLE 1

Housing Loans and Cash Subsidies by Central Mortgage and Housing Corporation in All Canada

($000)

	1966	1968	1970	1972	1974
Loans					
Public Housing	73,933	115,306	245,620	221,296	194,888
Limited Dividend Housing	—	22,950	243,395	115,201	49,700
Cooperative Housing	—	—	—	—	18,364
Non-Profit Housing	20,874	57,691	72,808	39,858	130,614
Residual Lending	446,263	217,759	336,372	88,070	12,782
Assisted Home Ownership	—	—	—	—	257,841
Sewage Treatment	35,730	37,579	72,487	97,195	217,754
Federal/Provincial Land Assembly	4,030	8,093	5,114	9,570	20,014
Total	580,830	459,378	975,796	571,190	901,957
Cash Subsidies					
Public Housing	2,395	5,377	17,276	69,335	87,000
Assisted Home Ownership	—	—	—	—	247
Forgiveness on Sewage Treatment Loans	7,852	5,850	6,930	18,014	17,147
Total	10,247	11,227	24,206	87,349	104,394

Source: *Canadian Housing Statistics*, Central Mortgage and Housing Corporation, various years.

TABLE 2

Housing Loans and Cash Subsidies by Central Mortgage and Housing Corporation in Ontario

($000)

	1966	1968	1970	1972	1974
Loans					
Public Housing	64,387	87,422	128,438	113,681	82,830
Limited Dividend Housing	—	5,102	125,191	44,108	20,167
Cooperative Housing	—	—	—	—	6,476
Non-Profit Housing	5,291	5,358	3,804	6,673	42,861
Residual Lending	n.a.	n.a.	n.a.	n.a.	n.a.
Assisted Home Ownership [1]	—	—	—	—	101,344
Sewage Treatment	17,482	21,837	23,138	51,916	86,609
Federal/Provincial Land Assembly	2,236	5,555	2,564	5,480	7,143
Total	89,396	125,274	283,135	221,858	347,430
Cash Subsidies					
Public Housing	n.a.	4,835	11,200	28,925	56,600
Assisted Home Ownership	—	—	—	—	50
Forgiveness on Sewage Treatment Loans	n.a.	3,404	4,287	8,510	6,988
Total	—	8,239	15,487	37,435	63,638

Source: *Canadian Housing Statistics*, Central Mortgage and Housing Corporation, various years

1. Assumes that two thirds of 1973 and 1974 loans made in 1974

n.a. not available

TABLE 3

Housing Loans and Cash Subsidies by the Government of Ontario

($000)

Loans	**1966**	**1968**	**1970**	**1972**	**1974**
Housing Loans	9,250	31,724	41,925	132,460	114,102
North Pickering Project					116,000
Total	9,250	31,724	41,925	132,460	230,102
Cash Subsidies		**1967**	**1969**	**1971**	**1973**
Public Housing		1,315	4,528	15,451	27,918

Source: *Public Accounts of Ontario*, various years. Housing Loans are calculated as advances from the Ministry responsible for Ontario Housing Corporation, to that body. The data refer to the fiscal year ending March 31.

II. THE HOUSING PROBLEM

PUBLIC ATTITUDES

The view is widely held that certain commodities or services should be available, or at least a minimum amount of these commodities should be available, to all citizens, irrespective of their ability to pay for them. The distribution of these commodities and services it is believed, should be more equal than the distribution of income and wealth. Health care, education and housing are probably the most important of the commodities and services so viewed.

Governments of all levels have voiced their support of this view. The federal government has "adopted the basic principle that (says) it is a fundamental right of Canadians, regardless of their economic circumstances, to enjoy adequate shelter at reasonable cost."[1] At the provincial level, the Ministry of Housing has declared that "adequate housing at affordable prices is a basic right of all residents of Ontario."[2] The City of Toronto adopted as a goal for its housing program, "the equitable distribution of the housing stock of the City in particular to meet the needs of identified target income groups".[3]

Despite numerous housing programs, initiated by all levels of government, housing is felt to be a serious problem. The feeling exists despite the continued improvement in the quality of the total housing stock. The percentage and absolute number of buildings in need of repair have both declined: similarly, the percentage and number without central heating, without hot and cold water and without indoor plumbing have also declined.[4] The number of housing units completed has been consistently larger than the increase in the number of households. The number of persons per room has declined and so has the number of housing units occupied by more than one household.[5]

This general improvement, although encouraging, measured in the context of current concerns is rather irrelevant. References to this improvement frequently receive too much emphasis in discussions of housing problems. Improvement in the past does not imply that the present problem is not severe. Furthermore, these data do not relate to current sources of disatisfaction. The housing problem in Ontario, with the exception of the housing problems of native peoples and certain rural areas or groups, is not that people are living in housing without running water or in need of major repair, or that people are overcrowded in their accommodation: it may be an oversimplification, but the public perceives the housing problem to be simply that housing costs too much; the purchase price of a house is felt to be too high and the rents for apartments are also felt to be too high.

THE HIGH COST OF SHELTER

The price of a house has been rising dramatically for the last several years; it has been rising more rapidly than personal disposable income and the general price level. The increase in house prices has been most dramatic in growing urban areas. In some Ontario cities, the price of an average house has doubled since 1971.

This is in marked contrast to the decade before 1971, during which house prices rose more rapidly than the general price level but less rapidly than personal disposable income.[6]

Rising prices have been made more difficult to finance as a result of high mortgage rates and rising down payments ratios. In 1961, sixty nine percent of all Ontario families could finance the purchase of the average Ontario home sold through the Multiple Listing Service and still spend less than one quarter of their gross income for principal and interest payments. In 1971, fifty eight percent of families could finance the average house while by 1974 the percentage had fallen to twenty-nine.[7] (see Table 4).

The cost of obtaining rental accommodation did not rise nearly so rapidly. Indeed, until recently, the stability of rents was remarkable. Between 1961 and 1971, the consumer price index rent component rose only 23 percent compared with a 60 percent rise in the general price index and a 105 percent rise in the home ownership component.

Unfortunately, it is extremely difficult to obtain accurate data on either historical or, for that matter, current rent levels. The consumer price index rent component, the only index available that reflects experience over a long period of time, is recognized as seriously understating the true rise in rents. From 1961 to 1971, the census showed that actual rents paid by persons increased by 75 percent, compared with the 23 percent increase in the rent component of the consumer price index.[8]

Since 1971 rents have risen rapidly. The rate of increase appears to be accelerating. There are no data which permit an accurate documentation of this increase, although even a cursory reading of the newspapers in recent months removes any doubt that rents have increased dramatically.

With the decline in the construction of rental accommodation the increase is likely to continue. A recent survey in North York indicated that rents in that municipality rose 18 percent in 1974.[9] Whatever the rate of increase; rents are so high that they demand 50 and even 75 percent of the income of a poor family. The numbers of households having to spend this much for rent is significant. In 1972 there were 130,000 households renting accommodation in Ontario which spent more than 50 percent of their income on rent.[10]

The lack of adequate data to measure the increase in house prices, particularly of existing houses, and the increase in rents, makes it impossible to measure precisely the severity of the problem and its change through time. As a consequence, the success or failure of programs to

TABLE 4

House Prices, Carrying Costs, and Incomes

Year	Average Price of Transactions under M.L.S. Ontario[1]	Average Downpayment[2]	Conventional Mortgage Interest Rate[3]	Annual Carrying Costs	Percentage of Ontario Families For Whom Annual Carrying Costs would be less than 25 percent of gross income[4]
1961	14,487	2,608	7	994	69
1967	21,285	4,896	7 3/8	1,419	69
1971	27,502	5,500	9 1/2	2,075	58
1974	46,752	12,156	11 1/4	4,076	29[5]

1. Source: *Dollar Volumes of M.L.S. Activity*, Canadian Real Estate Board.
2. Assuming the downpayment ratio was the same as that of homes sold under N.H.A. financing, *Canadian Housing Statistics*, various years.
3. Source: *Canadian Housing Statistics*, various years.
4. Income distributions found in *Census*, 1961, 1971; *Family Incomes, Census Families*, 13-538, Statistics Canada, 1967, *Family Incomes, Census Families* 13-208, 1973.
5. The 1974 income distribution was calculated assuming all family incomes had grown at the same rate as nominal per capital income between 1973 and 1974.

reduce these increases cannot be measured. The Council is of the opinion that the collection of these data should be accorded a high priority. Such data are a necessary foundation for sound policy evaluation which, in turn, is a prerequisite to sound policy formulation.

WHO BEARS THE BURDEN?

The cost of obtaining shelter, either owned or rented accommodation, presents a difficulty for a significant portion of the population. It is of interest to determine more precisely who suffers from the high cost of shelter.

Under the assumption that existing homeowners do not suffer from the rise in housing prices or rising rents, one need only consider the households that do not own homes. About one third of Canadian families do not own homes, while three quarters of unattached persons do not. Although it may appear cynical, one might be forgiven the observation that there is no mystery in the difficulty governments face in attempting to mount an attack on the high price of houses: more than half of the population are insulated from high prices and, particularly relative to those who do not own homes, enjoy a gain when prices rise. This is in contrast to food prices, doctors' fees, or gasoline prices all of which adversely affect virtually everyone and yield higher returns to relatively small groups.

Most unattached individuals irrespective of their income, do not seek to provide themselves with shelter through owning a home: it is not appropriate to their needs. One can therefore presume that, except to the extent unattached persons might form a family in the future, they are unaffected by rising house prices. When discussing the welfare of unattached individuals one is largely concerned with the rental market. Families, on the other hand, are involved in both the rental and ownership markets.

What are the characteristics of the one third of Canadian families that do not own homes? The likelihood that a family will not own a home increases as income falls. The likelihood is much higher in metropolitan than non-metropolitan areas. The likelihood falls as the age of the head of the family increases.[11] The families which do not own homes are, therefore, mainly city dwellers and frequently the head of the household is under 35. When it is further noted that the most rapidly rising housing prices and rents are also found in cities, it becomes apparent that the severity of the housing problem is disguised by aggregate figures.

An equally basic criterion assisting indentification of those bearing the burden of housing costs is the income level of the family or individual. Establishing a level above which high housing prices and rent levels cease to be a problem is highly subjective and arbitrary. It is further complicated by the fact that income alone does not reflect need. A single person could live adequately with an income of $6,000 per year, while a family with three

children could not. No precise dividing line can be drawn. Suffice it to say that those on very low incomes suffer acutely and, as incomes rise, the burden becomes less severe.

For those with very low incomes, the concern is almost exclusively with rent levels, because the price of a house is far beyond their means. The price of houses is, curiously, a problem complained about most vociferously by non-poor families. Many of the most strident complaints regarding house prices come from those with relatively high incomes. Their expectations regarding purchase of a home are very high, particularly when they compare themselves with their parents. The rapid rise in house prices has put high quality houses beyond their means, or has meant that purchases have had to be postponed. Although the poor are clearly the most disadvantaged in today's housing markets, the furor over house prices can only properly be understood by recognizing the large number of families of moderate income whose expectations now appear unattainable.

THE WORKINGS OF THE HOUSING MARKET

The price of a house and the rent of an apartment, like the price of any other commodity, are determined by the interaction of supply and demand in a market. Households, defined to include both families and unattached individuals, demand accommodation. The household, influenced by its tastes, income and the level of all prices, decides between owning a house and renting an apartment or flat. It then decides what quantity of owned or rented housing it desires. To simplify the discussion, it is assumed in this paper that there are only two types of housing available to households — single detached houses for ownership and multiple unit housing for rental. There can be some conversion from one type to the other by owners of the units.

What is most important to a household, in considering the purchase of a house, is not the market price but the monthly carrying charges and the cash required for a down payment. The monthly carrying charge depends on the size, the interest rate and the amortization period of the mortgage (the length of time required to repay the mortgage through monthly installments) and such associated costs of home ownership as property taxes and the cost of insurance, utilities and maintenance. The market price of a house is, therefore, important through its influence on the downpayment and carrying costs.

The views which households have of the likely changes in prices are particularly important in determining current demand. Expectations of future house price increases or mortgage rate increases tend to shift future demand into the present. Households purchase houses immediately, rather than risk the possibility that downpayments will increase faster than their savings, or that monthly carrying costs will rise faster than their incomes.

Usually each household buys only one house or rents one apartment. The above suggestion of a 'quantity of housing' which a household would wish to buy at a given price implies a measure of the amount of housing services in an apartment or house. One way to approach this question is to assume that there are differing quantities of housing in different houses or apartments. If housing prices fall, a household will not desire to purchase two homes, but rather a house which has more housing services in it. It is larger, has more land, or is aesthetically more pleasing. A fall in housing prices may also lead a household to buy a house in a more favoured location.

The aggregated demands of all households form the total demand for houses and for apartments. The demands are closely related. An increase in the price of houses reduces the quantity demanded of houses and increases the demand for rental accommodation and all other commodities. Similarly, an increase in rents for apartments increases the demand for houses and reduces the quantity demanded of rental accommodation.

At the same time, there are agents willing to supply houses and rental units to the market, increasing the amount supplied as prices increase.

All the households demanding detached houses or, alternatively, rental units, and all the agents supplying detached houses or, alternatively rental units, come together in the two housing markets. In effect, an auction takes place. The price of detached housing is set so that the amount demanded by all households equals the amount supplied by all agents. Similarly, the rent and amount supplied of rental units is determined.

Most of the single detached dwelling housing stock is owned by the households that occupy it. In this market households, in effect, sell their homes to themselves, although the sale is never observed or recorded. This method of analysis is adopted both for simplicity and to emphasize that, although homeowners do not actually put "For Sale" signs on their houses every time period, they are implicitly part of the market at all times.

If the determination of house prices and rents is to be understood it is important to recognize that the observed market price is the result of a market auction which equates the demand and supply over the short run. If one wishes to predict future price movements, one must compare the current short run price with the expected future price determined in a similar market auction.

In the short run, the market for detached houses is supplied by agents owning existing houses and a few agents with unsold new or nearly completed houses. The rental market is similarly supplied mainly by existing units. Prices may be high and profits for new construction high, but time does not permit agents to construct new housing in response to this incentive. If there is a wide divergence between house prices and rents there may be some conversion of rental units into units for ownership, or the reverse. In a year, new construction represents only about two to three percent of the total dwelling stock. Hence, even if the short run were taken to mean one year, the supply of housing would still mainly be the existing stock. Because agents owning existing housing would rather sell or rent

their units than leave them vacant, there is little difference between the supply at a low price and a high price. An increase in demand that is caused, for example, by increased incomes or more households, usually results in an increase in price. Supply responds slowly. It can take up to four years for a plan to result in houses for sale, or two years for a proposed apartment to be built.

There are agents, builders and developers in the economy who wish to supply new housing in the future if their expected rate of return is sufficiently high. Assessment of the profitability of new construction is not based on the current situation but on expected future prices (or rents) and expected future costs. In the long run household income, population growth, immigration, the age composition of households, and the formation of families are the critical factors influencing the demand for housing and, therefore, influencing expected future prices. The fact that the children of the 'baby boom' are now establishing families and beginning to demand single detached housing has a great market impact.

The expected rate of return also depends on the cost of land, of building materials, of labour, on levies placed on a builder by a municipality and on the cost and availability of mortgage credit. In a perfectly functioning capital market, the availability of credit would not be an issue because, if the demand for credit increased, the cost of credit would rise and reduce the amount demanded. However, in the actual mortgage market, rates seem to adjust slowly. The available funds are often rationed, rather than controlled by a price mechanism.[12]

The cost and availability of credit affects the supply of multiple and single unit accommodation slightly differently. Because the building of rental units is highly levered, a decline in the loan-to-value ratio at which mortgages are made available can leave developers of planned and potentially profitable projects with insufficient equity to undertake construction; an increase in mortgage rates results in a significant increase in cost. The developer of detached homes only uses a mortgage to finance construction, the mortgage then being assumed by the purchaser. The cost and terms of mortgage credit are, therefore, important as they determine the marketability of the new home.

The housing markets described above determine the general price of houses or the rental rate on apartments. The price of houses within a city, or the price of one specific house, is influenced by factors which the previous analysis has neglected. These factors are, however, equally important.

In cities, households can save transportation costs by living in housing near where jobs and shopping areas are located. In most cities, jobs and shops are located near the centre. The normal functioning of the housing market results in a much higher price of housing near the centre of the city than near the periphery. Even in the hypothetical situation when everybody had the same income and the same tastes for housing, the city would likely have high housing prices near the city centre and much lower

prices at its edge. This normal tendency appears to have been reinforced in most Ontario cities by the increasing desire of relatively high income persons to live near the city centre. They are willing to pay higher prices to live downtown and as a result, the price of downtown housing tends to be bid up.

As cities grow in size, the price of all housing tends to rise as the attractiveness of existing houses increases relative to new housing built at the periphery of the city. Much of the rise in housing prices seems to be the result of urbanization and urban growth; people are moving to cities and particularly, the medium and larger cities. Most new households entering the housing market, especially recent immigrants and persons leaving their parents' home, seem to prefer to reside in larger cities.

The incomes of households employed in large cities tend to be higher, reducing somewhat the burden of housing prices. At times the rate of growth of housing prices can be higher than the rate of growth of incomes. This appears to be the present situation in certain Ontario cities. Such a tendency, although often a cause of concern, should be recognized as having a beneficial side effect: this is the way of the market — perhaps one of the most effective ways — to restrain the growth of the larger cities; when households compare the incomes they would earn and the price they would pay for housing in a large, growing city with their incomes and the price they would pay for housing in other areas, they are discouraged from moving to a large city or, if they are already there, may move away.

The price of one specific house may be influenced by additional factors. To the extent that a given house has advantages not enjoyed by other houses, the value of the advantage tends to be capitalized in the house price. That is, the price of the property adjusts up or down to reflect its advantage or disadvantage. Houses in the districts served by excellent schools have higher prices than equivalent houses elsewhere. A transportation improvement leads to higher prices for the houses which are now more accessible. Better located houses have higher prices. Higher property taxes in a region can lead to reduced house prices. Perhaps of most interest, if a house has a low interest mortgage, which can be assumed by a purchaser, the value of this inexpensive mortgage is capitalized. In times of high interest rates, as at present, some of the increase in the price of existing houses is explained by this capitalization. (see also Appendix A for a description of the workings of the housing market).

WHO IS THE CULPRIT?

The price of shelter is high and continues to rise. The search for a culprit produces a list of candidates as long as the list of factors operating in the housing market. General inflation, mortgage rates, land costs and construction wages are often blamed. Big developers, unscrupulous landlords and land speculators are accused. Those municipalities refusing to approve some new developments and delaying others with too much red

tape, are suggested villains. Households themselves are claimed to be the cause of the problem because of their numbers, high personal incomes, high expectations and their desire to live in large densely populated cities.

The identification of the culprits — in less emotive terms the identification of the factors causing the perceived problem — is only possible if the nature of the problem is clearly defined.

In the opinion of most people the "housing problem" is the fact that housing costs too much.

It may be more appropriate to redefine much of what is called a 'housing problem' and define it as an 'income problem'. Housing is felt to cost too much because, given existing incomes and prevailing prices, certain households can only purchase what is deemed an insufficient amount of housing; and certain other households purchase enough housing but not enough of other things. The consumption of housing or other things could be raised to the sufficient level by increasing the incomes of the households.

The problem as redefined, then becomes a question of the best way to redistribute income to these households.

One way is to directly give them more accommodation; another is to provide accommodation at below market rates. Another is to transfer cash.

Various alternatives will be discussed later in this paper.

The Council, in general, is in favour of cash transfers, rather than subsidies in kind. We do, however, recognize that many people prefer to support the poor with subsidies in kind and that, in certain cases, in kind subsidies may be appropriate. In either case the goal of government policy is most appropriately recognized as the redistribution of income.

In any redistributive program, irrespective of type, the Council feels it is important to ensure that persons in similar circumstances are treated in a similar manner; and that the redistribution should be an integral part of the social security system.

Such a definition of the housing problem neglects certain other issues which are of serious public concern. The price of housing may be high, relative to what it would otherwise be, as a result of certain impediments to the normal functioning of a market economy. Housing consumption may receive subsidies which other areas do not; supply may be restrained by materials shortages, by municipal regulatory activity, or by restrictions on entry into the building trades; speculation or collusion may restrain output and so lead to higher prices. The removal of these impediments, can be the goal of policy in this case.

Finally, even when incomes are adequate and no impediments exist, the housing problem may be that households do not consume what society feels to be the 'right' kind or amount of housing. Each individual household may not realize the broader benefits to society of housing consumption or housing ownership, and hence may not consume as much housing as society feels is desirable. Most frequently, proponents of this view of the housing

problem feel that home ownership, rather than increased housing consumption, produces broader benefits to society.

When people are felt to consume insufficient amounts of housing because they ignore the broader social benefits of housing consumption, the goal of government policy is to transfer some of society's resources from other sectors into the housing sector. While the benefits of increased housing consumption are evident, they can only be properly measured by recognizing that resources are being diverted from other sectors where they would also confer benefits. In the case of a desire for more home ownership, the goal of government policy is to achieve a different distribution of the ownership of the housing stock. Frequently policies which are designed to increase the numbers of homeowners contain significant incentives to expand the total stock of housing.

These three restatements of the housing problem are not mutually exclusive; each captures certain aspects of public concern. The Council holds the view that the first two aspects — the income problem and the impediments to supply problem — are the most important. By separating the concern into component parts it is expected that the policies of Canadian governments can be better analysed. The search for a culprit — for casual factors — can proceed in each component area.

All of the forces cited at the outset of this section are probably culprits to some degree. Sorting out the relative importance of each requires continuing thought and theoretical and empirical research. The purpose of this paper is not primarily to suggest their relative importance but, rather, is to examine government activities, direct and indirect, and to assess their effects on the housing market. Identifying the determinants of the housing problem, however, will always be an implicit part of the discussion. Indeed, in examining government programs designed to relieve the housing problem, one finds some of the causes.

Continuance of the concern over housing prices is not proof that government programs are ineffective. The persistence of the concern, however, suggests that an examination of how government programs have influenced the housing market is warranted and that an examination of alternative approaches may be required.

III. CURRENT HOUSING POLICY AND DIRECTIONS FOR CHANGE

If current housing policy in Ontario is to be examined one might first ask whether we have a housing policy in the province. It is frequently alleged that the "housing problem" is a consequence of the absence of a "housing policy" — a parallel to the allegations that problems relating to energy or foreign ownership are the result of a lack of an "energy policy" or a "policy on foreign ownership".

The existence of a housing policy is not discovered in ministerial speeches, or in a planning document that confirms that government favours a particular approach: the existence is discovered in the actual legislation and the commitment of resources and administrative activity. Policy is what governments do or affect. By these criteria, Canada does have a housing policy, at the federal, provincial and municipal levels. The programs may not be specifically defined as relevant to "housing"; many acts of government that are seemingly unrelated to housing have a significant impact on the housing situation.

Various government programs which combine to form housing policy will be described and analyzed. Where the Council feels an alternative approach deserves consideration, it will be discussed.

Government activities are divided into two sections: the first includes programs explicitly related to housing, principally those administered by Central Mortgage and Housing Corporation at the federal level and the Ministry of Housing at the provincial level; the second includes other government activities that have a major impact on housing markets.

PROGRAMS EXPLICITLY RELATED TO HOUSING

Immediately after the Second World War and well into the 1950's, the principal aim of Canadian housing policy was to expand housing output and in particular, to expand the output of detached housing. The dominance of the concern with the building of new housing was understandable: there had been a low level of home building during the depression and war years. The major institutions created, and the programs adopted during that period following the end of World War II, remain and still form the basic structure of Canadian housing policy.

In 1946, Central Mortgage and Housing Corporation (C.M.H.C.) was created to administer the *National Housing Act* (*N.H.A.*). C.M.H.C. was a crown corporation with independent authority to do business with provinces, municipalities, builders and households. Housing program administration and *de facto* program development were removed from the day to day pressures of governments and politics.

This is still the approach. The main federal institution with responsibility for housing is a crown corporation and not a government department.

Mortgage Insurance

The *National Housing Act* established a federal loan insurance program in 1954. The program has been changed many times. At present, C.M.H.C. determines the criteria for eligibility of borrowers, the length of the amortization period and the maximum size of the loan. Financial institutions provide the mortgage funds and the borrowers pay an insurance premium. The rate of interest on these loans is established in the financial markets. Mortgages are available to builders to finance new construction of detached and multiple unit housing and are available to households to finance the purchase of an existing house.[13] Purchasers of newly built housing assume the mortgage from the builder.

Large amounts of money have been loaned under the insurance program. In 1972 over $2 billion was advanced. At the present time about a quarter of all residential financing is insured under the program.

The supply of mortgage funds depends on the size of the aggregate pool of investment funds and the desirability of mortgages as an investment when compared to other investments. Institutions were more willing to make mortgage loans because the risk of mortgage investment losses was reduced through the establishment of an insurance system with a lower premium than the private sector would have assessed. As a consequence the supply of loanable mortgage funds was increased. The insurance program also led to a fall in mortgage interest rates and an improvement in the terms of the mortgages. The intent of the program was to remove the impediment to the flow of mortgage funds caused by the fact the private sector overestimated the risks inherent in mortgage investments.

The effects of the program are not the same in the ownership and rental markets. In the short run, the rental market is unaffected, because the demand responses of households and the supply decisions of owners of existing rental units are unchanged. However, in the long run, when builders consider whether to construct an apartment, their interest costs are reduced. Most of the money used to build apartments is borrowed and so the reduction in the interest rate increases a builder's rate of return. As a result more apartments are built and rental rates tend to fall.

This analysis presumes that none of the other factors influencing supply and demand have changed in order to assess the impact of one change — in this case the advent of mortgage insurance. This procedure will be used throughout this section. A result of such an analysis may be interpreted in two ways: rents fall if no other factors influencing supply and demand change or, alternatively, rents fall below what they would have been after account has been taken of the other changes.

It has been estimated that a reduction in the rate of mortgage interest by one percentage point, (for example from 13 to 12 percent), will lead to an 8 percent increase in multiple housing starts[14] in the first year. Starts increase a further 8 percent in the second year and about 7 percent in the third year.

There are also changes in the short and longer run in the market for detached housing as a result of mortgage insurance.

In the short run, lower interest rate mortgages are available to households for the purchase of existing housing; the demand of households is affected but the supply is not increased and, as a result the price of housing rises.

In the longer run, because the higher prices increase the rate of return on a project, builders are encouraged to start more house construction. In addition they would expect that households would demand the housing built under *N.H.A.* financing, because a more attractive mortgage could be assumed: *N.H.A.* insured mortgages have lower interest rates and longer amortization periods than conventional mortgages and, in addition, are available for higher ratios of the purchase price. The response of builders and households are both changed. Over time more houses are built; the demand also increases, however, and the price of housing might not fall significantly and, in fact, could rise.

In operation, the mortgage insurance program has covered defaulted mortgages with revenues from insurance premiums. The program does not provide a subsidy. The impediment to supply inherent in overestimation of the riskiness of mortgage investments has been overcome. There is little doubt that as a consequence of the program the flow of mortgage funds increased and this, in turn, increased the supply of housing.[15].

The illiquidity of mortgage investments might also be an impediment to the supply of housing. This impediment might be removed if the federal government established a market for the buying and selling of existing mortgages by instituting its long planned mortgage exchange corporation.[16] The cost and availability of other inputs such as skilled labour, serviced land or building materials, used in the construction of housing, can also constrain supply. Credit availability appears presently to be a less severe constraint than the shortage of serviced land, the duration of the regulatory process, and the slowdown in approvals for new developments.

A beneficial side effect would result if a program could be developed to reduce the cost of building a house. In recent years housing prices and project costs have risen faster than the total pool of mortgage funds and, as a result, a given growth in available capital can finance fewer houses. If the costs of housing were reduced, the capital available might be able to finance adequately the number of new housing units needed to stabilze prices.

Residual Lending

The *N.H.A.* also contains a program which provides loans of government funds to builders who cannot secure financing from the private sector. The rationale for providing this extra money seems to have been to provide more housing than would result from the normal operations of the market; and also to increase the number of homeowners. Most of the loans are made for the construction of single, detached houses. Although extensively used in the past ($512 million in loans was made in 1967), in recent years lending under the program has been curtailed. (see Table 1).

The lending is designed to be residual — to provide mortgage funds in addition to those available from private financial institutions. Ideally, under this program, projects which could not secure private financing would still be constructed and this would increase the supply of housing. However, loans are made on terms more attractive than those available privately, and it is possible some of the projects which could have secured private financing sought *N.H.A.* loans: the net increase in housing supply was probably less than the total housing financed under the residual lending program.

The identification of the final effects of this program would require an assessment of the reduced quantity of private demand and the effect of government borrowing to finance the program on the financial markets. The required analysis is complex; research to date has produced no firm conclusions.[17]

However, the residual lending program no doubt led to increases in the stock of single detached and rental buildings; and enabled many families to purchase a home.

There are many possible alternative means of increasing the supply of housing beyond that likely to be provided by the market. Non-financial inputs into housing could be subsidized or incentives could be provided through amendment of the tax system. If, at a point in time, the housing and business cycles were both in a trough, and housing constuction was held back by uncertainty as to future demand, C.M.H.C. could pledge to buy newly constructed homes of certain types with the intention of holding them until families became more assured of their future and were prepared to enter the housing market[18]. The result would be the expansion of the stock of housing during a period of uncertainty.

The principal beneficiaries of both the mortgage insurance and residual lending programs have been middle incomes families: the rents on multiple unit buildings and the down payments and monthly carrying costs of *N.H.A.* financed houses were beyond the means of the poor. The presumption is that the needs of the poor will be met by a filtering process: as persons with higher incomes move out of existing houses or apartments and into new housing, the price of the older housing will fall and become accessible to lower income households.

The filtering process, in fact, has never been able to provide this accessibility, partly because of the tendency for much of the older housing stock to be demolished in the process of urban commercial and industrial growth.

Several important amendments were made to the *National Housing Act*, in 1964 and the major programs adopted reflected an increased concern with the achievement of equity. The programs were designed to provide housing for specific groups and, in particular, low income families and elderly persons. The programs were explicitly designed to redistribute income.

The earlier programs, oriented toward increasing the total output of housing units, were continued.

The entry of the provinces into the housing field paralleled the development of these redistributive programs. This entry occured for many reasons. A major factor was the offer of new and attractive arrangements for cost sharing by C.M.H.C.

The Ontario Housing Corporation (O.H.C.) — now part of the Ministry of Housing — was formed in 1964; it soon became a vigorous participant in the housing area, both on its own and in conjunction with C.M.H.C.

The programs adopted after 1964 fall into two main groups. Those in the first group are designed to assist persons to obtain rental accommodation. Those in the second group are designed to assist households to own their own homes.

In the first group there are a number of programs intended specifically to meet the housing needs of those on very low incomes. The programs provide rental housing at below-market rents, rather than directly increasing the incomes of these households.

Low Income Rental Housing

Public Housing

The major program directed toward low income households is the Rent-Geared-to-Income Housing Program — more commonly known as "public housing." C.M.H.C. provides loans to a province for 90 percent of the capital cost of a building. The provincial housing agency provides a loan for 10 percent of the cost, selects the site, calls for tenders, contracts for the construction; it usually manages the building, although in some instances a local housing authority will be responsible for building management. If tenants earn over $4,800 a year they are charged a rental set at 25 percent of their gross income; the percentage falls as the income of the tenant declines. The difference between the amount of the rental payments and that needed to manage the building and amortize the loan is covered by a subsidy. The federal government provides 50 percent of this subsidy, the province 42 1/2 percent and the municipality 7 1/2 percent. The initiation of a project must be by the municipality.

Units are available to low income families with children under one section of this program, and to senior citizens under another. In 1974, the average household income of tenants in public housing in Toronto was $5,028 per annum.[19] There is always a waiting list for this accommodation.

Until a few years ago, this program supplied the bulk of the low income rental housing which resulted from public sector activity. In 1970, almost 20,000 units were built in Canada under the program; this represented 11 percent of all housing completions.[20]

The program encountered serious criticism as it gained momentum. The huge complexes of high density housing were called "ghettos of the poor". The sites frequently were far from employment opportunities. There were few community facilities or social services. There was overcrowding. The social stigma attached to public housing fostered bitterness, alienation and despair. The rent-geared-to-income system offered little incentive for self help. Bureaucracy and officiousness too often marked the management of the properties.

Disenchantment with the program increased municipal reluctance to initiate public housing projects; few buildings are now being constructed under the program and the construction that is taking place is almost exclusively for senior citizens. The Ontario Housing Corporation has estimated that in Ontario 500 family units and 2000 senior citizen units will be built in fiscal year 1975-76 in Ontario; if the estimate errs it is too optimistic.

The effect of the program on the housing market as a whole is unlikely to be significant. If it is assumed that government borrowing to finance the program has no effect on the cost or availability of mortgage credit, the decisions of builders, on the supply side, are not affected. The overall level of demand for rental accommodation probably declines slightly through the removal of some households from the private market; this may lead to a small decline in rents.

A number of programs were developed as an alternative to government built and managed subsidized housing or, more accurately, as a supplement to it. These programs sought to meet a number of the criticism of public housing. The subsidized housing units would no longer be concentrated in one place — only about 25 percent of the units in a building would accommodate low income households whose rents would be subsidized.

The programs, which have assumed a number of different forms, were initiated by Ontario.

Rental Supplements

There are three major programs. Under the Rent Supplement Program, private landlords agree to make up to 25 percent of their units available to tenants from the waiting lists for public housing. Under the Community Integrated Housing Program, O.H.C. supplies second mortgage financing to a builder if up to one quarter of the units are supplied to tenants receiving rent supplements. The third program, Accelerated Family Rental Housing, provides favourable first mortgage financing from O.H.C. in return for up to 25 percent of the units being made available under the rent supplement system, and the remainder of the units being available to tenants with specified moderate incomes. The rents charged and the overall rate of return on the project are subject to certain controls. In all these programs the difference between market rents and rents actually paid by tenants is contributed by federal, provincial and local levels, as with public housing.

None of these programs is large. There are currently 2,700 units in the Rent Supplement Program; $17 million in loans was made in fiscal year 1973-74 under the latter two programs.

These programs probably have little effect on the private market. When existing buildings are used, a household receives a subsidy and is removed from the private market; concurrently, a unit of housing is removed on the supply side. When a new building is constructed, there is some increase in the supply of new rental units — the 75 percent of a new building not available for subsidized tenants — and some reduction in demand. Hence there is some reduction in rent levels relative to that which otherwise would prevail.

The shift away from subsidized housing concentrated in large, government managed complexes was clearly desirable but, its achievement involved considerable cost. When only a quarter of the units in a building are available for subsidy there is a significant increase in the administrative costs of making a given number of units available. Generally speaking, private housing managers are not qualified or inclined to handle the social problems of certain low income tenants and, as a result have tended to refuse to accept welfare recipients or large families.

Reliance upon the initiatives of private builders, responsive to the mortgage incentives, does not assure a supply of new units for subsidized tenants. Frequently, equally attractive mortgages are available under other programs that do not involve a commitment to accommodate very low income persons.

The evolution of housing programs, although meeting many of the criticisms, leaves a gap: there is no program that ensures a foundation level of new housing units for low income households and in particular, for very low income families.

The deficiency could be rectified without reverting to the old policy of building complexes that are exclusively reserved for poor tenants. The public sector could engage in a program of direct construction of units designed to meet the needs of a diversity of tenants. The building could be managed by non-government bodies, such as co-operatives or non-profit groups with their partial equity participation.

Such groups, however, do not exist in sufficient numbers at present to assume a major responsibility for producing low-income housing.

One of the main barriers to the development of these groups is the lack of expertise required to put together a construction project. A possible remedy is to have government, at the request of such a group, undertake the construction of a building, and subsequently turn it over to the group for management. The increased financial burden on government would be slight involving only the cost of managing a construction project. Such undertakings might provide a training ground for construction managers drawn from these non-profit groups and co-operatives, who could manage subsequent projects independently of the government.

Existing programs which assist those on low incomes have important shortcomings. They offer aid to only about 9 percent of those eligible by reason of age or income.[21] It would be more equitable if the available funds

were divided among a larger proportion of the eligible; it is inequitable in that it provides a large benefit to the lucky few, and provides nothing to others whose incomes and family circumstances are similar. Average subsidies are now in the range of $1,400 per year, per unit.[22]

Because the programs provide housing at less than market rents, in effect they provide a subsidy in kind. The cost to the government of this transfer may well be in excess of its value to the recipients. This problem is generally recognized. It has been accepted because of the explicit desire to control the "spending" of the subsidy.

A final problem in these programs is that the subsidy is attached to the housing unit, rather than the household. The household receives the subsidy, but it can only receive it if it lives in certain buildings. Households are restricted in their choice of housing and sacrifice freedom of movement in accepting a subsidized unit because transfer from one subsidized unit to another is extremely difficult.

Moderate Income Rental Programs

There are a number of other programs designed to provide rental housing for moderate and some low income households. Again the approach has been the direct provision of housing for which the rental is below market rates.

Limited Dividend Housing

The C.M.H.C. Limited Dividend (or entrepreneurial) Housing Program supplies high ratio loans at favourable interest rates for the construction of buildings whose rents will be controlled. The rents are at a level that will permit only a specified return on the investment. Households within certain income ranges are eligible. Although it has existed since 1938, the program only began to be used in any substantial way after 1967. Over $240 million in loans was advanced under this program in 1970; of this total, $125 million was advanced in Ontario. Since that time, although loan approvals have declined, the program still accounts for over one third of all loans made for rental housing by C.M.H.C. (see Table 1).

Non-Profit and Co-operative Housing

A similar arrangement is available for private or municipal non-profit organizations and co-operatives. High ratio loans, part of which may be forgiven, are available. The organizations are assumed to earn no profits. Rental increases must be approved by C.M.H.C. Over $100 million in loans was advanced in Canada to non-profit groups in 1974 and $20 million to co-operatives (see Table 1); $49 million of these funds were spent in Ontario.

In the past, under the regulations governing these programs, units were produced which were accessible to the upper half of those eligible for rent-geared-to-income subsidies. Under the present, liberalized regulations, the intent seems to be to produce housing which rents for only slightly below comparable privately financed projects. Such housing is accessible only to moderate income households.

The Limited Dividend Program seeks to achieve its purposes by influencing the decisions of entrepreneurial builders. The high ratio loan means that a builder needs little of his own money to embark on a project and the favourable mortgage rate reduces one component of the cost of the project. A specific project is, in other words, made more profitable. The rate of return on the investment is limited so the subsidy is not available to potentially profitable projects, which would have been undertaken with no subsidy. The program presumably results in an increased supply of apartments and, to the extent that this is the result, the market rental rate is held down. Loans to non-profit groups and co-operatives have a similar effect on market rental rates. Both these programs increase the supply of housing and offer units for rental at less than market rates.

The main thrust of these programs seems to be income redistribution: those households which occupy these units, in effect, enjoy a transfer of income from the government.

Rent Control

The most dramatic drop, during the recent slowdown in residential construction activity, has been in the construction of multiple units for rental. The resulting upward pressure on rents is already evident; it is likely to continue. Rent control is frequently suggested as a response; rents would be regulated to permit increases of a given percentage per year.

In a certain tautological sense, rent controls, if effective, solve the problem: the rate of rise in rents is slowed. However, controls do not touch the cause of the problem which is an insufficient supply of rental units relative to the demand for them. They may even exacerbate the problem: new construction may be reduced, because controlled rents reduce the rate of return on a project; buildings may not be maintained; rental houses may be converted to houses for ownership; rental apartments may be converted to condominium apartments.

As the price of rental accommodation decreases, relative to other prices, demand increases; at the same time supply is reduced. A black market may develop if tenants become willing to pay 'key money' to obtain a lease on a controlled unit. The approach itself is, in any event, an inequitable way to redistribute income. The Council believes that society as a whole, not merely owners of rental buildings, should bear the cost of subsidizing tenants.

The more sophisticated proponents of rent control argue that the supply problems can be avoided.[23] Rents, the argument goes, would be permitted to rise sufficiently to ensure 'adequate' maintenance and an 'adequate' return to landlords. New buildings would receive an exemption from controls for a certain period, or their owner would be permitted to charge rents which allowed an 'adequate' return. Under a guarantee that returns would be 'adequate', new construction would proceed. It is argued that the high rents that emerge in an uncontrolled market are not necessary to ensure new construction. It is further argued that high, uncontrolled rents become institutionalized and never decline.

On close scrutiny the Council feels the argument is unconvincing. The documentation of all the expenditures made by each landlord, which would form the basis for calculating an 'adequate' return, would require an administrative system comparable to that used to calculate taxable income. The Limited Dividend Program of C.M.H.C. is floundering on exactly this issue. Further, the 'adequate' return concept, apart from the difficulties of definition, ignores the importance of opportunity cost. Investment decisions are not based on an absolute return, but on possible returns attainable from the exploitation of other opportunities. Promising a minimum, 'adequate' return will not insure investor interest. Controlled rents, however 'adequate' the return, can only reduce supply, relative to what it would be in the uncontrolled world.

The Council feels that rent control is an inappropriate mechanism for dealing with the general problem of rising rents in a market economy. However, under a general regime of wage and price controls in which the market economy is suspended, it is obviously necessary to include rents.

Home Ownership Programs

Families in Canada have always shown a preference for detached housing. This ideal does not seem to have altered. Governments have accepted and encouraged this preference.

House prices began to rise rapidly in the late 1960's and the problems faced by moderate income persons wishing to purchase detached family housing, became of increasing concern. The approach adopted was to subsidize households within specific income ranges and to encourage the construction of housing built to sell within given price ranges. The programs transfer income and stimulate the supply of certain types of housing.

As with the moderate income rental programs, the main thrust is the redistribution of income to beneficiaries of these programs. The households eligible for subsidies under these programs have relatively high incomes. House prices have continued to rise more rapidly than incomes and the maximum income permitted for eligibility has also risen; certain of the subsidies are now available to more than half of the population.

Down payments and monthly carrying costs place home ownership beyond the reach of low income persons, even with these programs. The principal beneficiaries are middle class families.

H.O.M.E Plan

Begun in 1967, the Home Ownership Made Easy (H.O.M.E.) Plan of the Province of Ontario is the principal provincial program designed to assist home ownership. The Ontario Housing Corporation acquires land and allocates it to builders. Builders construct basic houses, with few frills, and sell them directly to households at prices that had previously been agreed to by O.H.C. Purchasers can finance the purchase price of the house with a high ratio first mortgage, available at favourable interest rates from the province; a second mortgage, available at favourable interest rates and a 35

year term, covers the market value of the land.[24]

Payments on the second mortgage amortize only the government land acquisition cost. The difference between the market value of the land and the government's acquisition cost must be paid either on sale of the house or at the termination of the 35 year mortgage. In effect, the household is offered attractive terms for financing and undertakes to pay the full market price for both building and land at the time of purchase. Families with one wage earner and an annual income of up to $14,500, and families with two wage earners and an annual income of up to $17,000 are eligible.

The H.O.M.E. Plan encourages the supply of single family dwellings through making land and mortgages available to builders on attractive terms.[25] The lower interest rate on the first and second mortgages reduce the carrying cost of a home to a household. A significant attraction of these homes is that, because they are simple in design and built with few frills, they are usually priced below the detached family homes being produced in the private market.

The subsidies contained in the program can be significant. The subsidy implicit in the favourable mortgage for the purchase of a house can amount to over $800 per year. The subsidy inherent in the treatment of land cost can amount to over $2,200 per year. For example, in the Toronto Malvern project government land costs are only $14,000, the land having been purchased many years ago, on a lot with a current market value of $36,000.

If incomes are below the established maximum, the program gives the same benefits to households, irrespective of income. The Council feels this is an inequitable method of allocating government funds for housing assistance.

The form of the plan has changed. The H.O.M.E. Plan initially attempted to offer houses for sale at below market value. Regulations could not prevent certain of those lucky enough to purchase a house from realizing an immediate capital gain through resale. These gains were vigorously criticized by the public.

Ontario Housing Action Program

More recently, under the Ontario Housing Action Program, the Ministry of Housing has played an active management and coordination role in all phases of the housing production process. The program is designed to stimulate the supply of housing for moderate income families in selected high growth areas.

Interest free loans are available to regional municipalities for major sewer and water lines. For every house built under the program, the province pays the municipality an unconditional grant of up to $600; this payment is designed to prevent an increased tax burden on existing homeowners. High ratio mortgage loans at reduced interest rates are available to builders who construct homes priced for families with incomes between $8,000 and $17,000. The program has a staff to coordinate the builders, municipalities and various provincial ministries involved in the process of housing construction and subdivision approval.

The program was much heralded and has been in effect since October 1973; few units, however, have been completed. The program is scheduled to be terminated in March, 1976. Attempts by the government to facilitate and coordinate new construction have not succeeded in overcoming the factors tending to restrain housing supply.

Home Purchase Grants

For a limited time, Ontario and the federal government are both offering cash grants to households purchasing their first home. The federal grant of $500 is available only for the purchase of a newly constructed home below a certain price level. This price level varies from area to area; for example, homes priced below $43,000 are eligible in Toronto. The provincial grant of $1,500 is available irrespective of the value of the house, and irrespective of the income of the recipient; it is applicable to both new and existing housing.

The cash grants stimulate the demand of households. Some families seek to purchase a house, who otherwise would have rented; other families who would have bought a house in any case seek to purchase a larger house. The supply is unchanged. The price of housing is likely to increase. Existing homeowners and owners of unsold new homes will benefit from the plan and, indeed, may benefit significantly. The intended beneficiaries may have gained very little.

The decisions of builders to supply new houses in the future may be little affected, even though prices are likely to rise during the existence of the program. The time between when a decision to build a subdivision is made and when the houses are available for occupancy may exceed three years. The subsidy to households, as currently legislated, will no longer be available by the time new houses could be delivered in response to the higher prices. Only those houses which were nearing completion, and could be accelerated, are influenced by these programs. The Council believes the program has probably exacerbated the general housing problem and, because benefits do not vary with income, it considers the program inequitable.

Assisted Home Ownership

The major initiative at the federal level, designed to encourage the purchase of a home, is the Assisted Home Ownership Program. Begun in 1973, it directly subsidizes the mortgage payments of families with one or more dependent children.

C.M.H.C. provides high ratio first mortgages, ranging from 80 percent on high priced units to 95 percent on lower priced units. A maximum price of an eligible home is established in each region. In Toronto, for example, the maximum is $43,000. The loans were available for the purchase of either new or existing housing when the program was begun but are now only available for the purchase of new housing. Many of the mortgage loans are advanced to builders and subsequently assumed by the purchasers of the new houses. A supplement related to income, is provided to the eligible family. The interest rate is also adjusted. For a given house, the lower the family income, the greater the supplement; this, in effect, lowers the rate of interest being paid by the family. The rate of interest can be below 6

percent per annum. Eligibility is limited to families with one or more dependent children and annual incomes of up to a stated maximum, the maximim depending on the region of the country: for example, the maximum gross family income for a Toronto couple with one child is $21,000.

A subsidy is also available to eligible families who secure a mortgage from a private lender. The maximum annual subsidy is $1,200. The mortgage loans are first advanced to builders and are assumed by the new owners at the time of purchase.

The subsidy available is approximately the same under both systems. If a household has an income which is $1,000 below the eligible maximum, it receives a subsidy of $250 per year. For every additional $1,000 their income falls below the maximum, a further $250 per year in subsidy is available, to a maximum of $1,200 a year. In Toronto families with incomes of $16,000 and less receive this maximum subsidy.

The recipients of the transfer are moderate income families who are purchasing their first home. The providers of the transfers are the rest of the population — low, moderate and high income families, both homeowners and non-homeowners. Such a redistributive pattern may be what society desires because of the value society places on home ownership, but it appears to run counter to the general perception of equity.

As presently constituted,[26] The Assisted Home Ownership Program affects the general housing market in a manner similar to the H.O.M.E. Plan. Purchasers of new housing are offered a subsidy which can only be realized concurrently with the addition of a unit to the supply of housing. It is likely, however, that some of the subsidized units would have been built in the absence of the program. The program probably causes the general price of houses to fall marginally.

All the programs described, which together form housing policy in Ontario, have been administered by institutions whose primary responsibility is housing. This list of programs is not exhaustive. Programs have been ignored that deal with home rehabilitation, neighbourhood renewal, and assistance to non-government housing agencies.

The proliferation of housing programs, evident in the discussion, continues. The number and complexity of the programs has meant that the intended beneficiaries are frequently unaware of the programs for which they are eligible. Furthermore, the proliferation has made evaluation of the net effect of housing policy extremely difficult; this is particularly true with respect to an evaluation of the effect of these programs on the distribution of income. New programs are, nonetheless, continually established and often without removing the old and presumably ineffective programs. The Council feels that considerable improvement in housing policy could be achieved by reducing the number and complexity of housing programs.

These housing programs, with the exception of the mortgage insurance program, appear to be largely designed to expand the output of housing and

to subsidize those households which occupy the new housing; the residual lending program, the rental programs for both low and moderate income households, and the home ownership programs all conform to this basic design.

Each program has certain unique advantages and disadvantages — these have been discussed — but almost all seem to suffer from two basic problems: they offer assistance to a small fraction of those eligible, with the resulting inequity that households in similar circumstances receive greatly differing benefits; further, the benefits of many of the programs are not allocated on the basis of need, some offer the same benefits irrespective of the income level of the recipients and others, particularly the home ownership programs, are enjoyed primarily by middle income families.

A Direction for Change

Shelter Allowances

These problems, in the view of the Council, suggest that a shelter allowance scheme should be seriously considered as a mechanism for the provision of housing subsidies. A household would be provided with a coupon, reflecting the household's needs and income, for the purchase of accommodation in the private market. Families in similar circumstances would receive coupons of the same value. The value of the coupon would decline as income increased, ensuring that the family would still have an incentive to work. The coupon could be used to pay any expenses associated with obtaining accommodation. It could be used to pay rent, to pay the purchase price or carrying costs of a house, to pay housing repairs or, indeed, property taxes. The system would not distinguish between expenditures for rental or ownership. The persons or firms who were paid by the household with the coupons could redeem them for cash. The household could not redeem the coupon themselves.

Under such a system, benefits would be enjoyed equally by households in similar circumstances. Benefits would be allocated on the basis of need. The transfers inherent in government housing policy would be made explicit. The beneficiaries would retain freedom of choice in housing and freedom of movement.

The shelter allowance might gradually replace all those housing programs whose main objective, implicit or explicit, was to redistribute income. It could replace the programs designed to assist low income households to obtain rental housing, the programs designed to assist moderate income households to obtain rental accommodation, and the programs designed to assist new home purchasers.

The major disadvantage of such a program is that the allowances, by increasing the demand for accommodation, will tend to cause an increase in prices, particularly for certain types of accommodation: some of the benefits may be enjoyed by current property owners.

A stimulus to demand for housing can benefit existing property owners unless there is an increase in the supply of accommodation: however, the

introduction of the shelter allowance system would be parallelled by a reduction in the expenditures under existing subsidy programs, so that there would be no reason to anticipate a net increase in the demand for accommodation.

A coupon system for providing a shelter allowance, in the opinion of the Council, is preferable to a system of direct cash grants: this derives from the fact that the intent of a public subsidy is to ensure that the recipient and his family have at least a minimum amount of housing and that if an income transfer intended for housing assistance were not spent for that purpose, society would still have to provide shelter.

It would probably be beneficial to establish the value of the coupon to ensure that the shelter allowance system did not provide an incentive for families to change the city in which they are living. The system should not attract households to regions of high housing costs. This neutrality would be achieved by providing the same value of the subsidy in all cities to households with similar needs and income.

A shelter allowance scheme is, in effect, an income support scheme. As such it should be considered in the context of the entire income security system in Canada. Shelter allowance proposals have, on occasion, been suggested in the context of reforming the Canadian welfare assistance system.[27]

PROGRAMS INDIRECTLY RELATED TO HOUSING

Other government programs, not administered by housing agencies and not designed to primarily affect the housing sector, have a significant impact on the housing problem.

These programs are dealt with in the section which follows. They must be included in a description of housing policy because they are an important part of the influence of government on housing.

Income Tax Subsidies

The Canadian income tax laws contain numerous provisions which give relatively favourable treatment to certain forms of income. Those households that own houses are able to enjoy many of these favourable provisions.

All household commodity assets are favourably treated because the value of the flow of services from an asset, which is income in kind to a household, is not taxed. For most households, a house is their largest commodity asset. The money from financial assets is taxed. A household which invests its savings in a house pays lower taxes than one which invests its savings in financial assets.[28] In addition, income from the sale of a taxpayer's principal residence is exempt from capital gains taxation.

Once in a lifetime, if a taxpayer has no ownership interest in real property, he or she may establish a fund toward the purchase of a house. The fund is called a Registered Home Owner Savings Plan. Contributions to this fund are deductible from taxable income to a maximum of $1,000 per year and $10,000 over the life of the taxpayer. When the fund is used to purchase a house the income is not subject to tax.

These programs and provisions offer a strong incentive for the purchase of a home. As a consumer, the household finds the price of housing reduced; as an investor, the household finds that after-tax returns from housing investments are greater than from most other investments. Saving toward the purchase of a home is encouraged. The programs increase the demand for housing by inducing some households to shift from rental to ownership and some households to buy a larger house than they would otherwise.

The investment advantages of home ownership are particularly attractive in the current period of inflation. Physical assets offer a hedge against inflation. Stocks often do not provide this hedge. The housing market probably is the most accessible and easily understood market which offers an opportunity to invest in a physical asset. There can be little doubt that in recent years the demand for housing has increased substantially because of investment, rather than consumption, motivations.

In the short run these tax provisions increase housing prices and, as demand for rental accommodation falls, reduce rents. In the short run, the benefits probably have been capitalized into the purchase price and new home purchasers gain little. In the long run, as supply increases in response to the initial increase in house prices, prices can be expected to fall; this will benefit new owners. In both the short run and the long run, there is a substantial income transfer from other taxpayers to house owners. Further, if rental units are converted into ownership units, it is likely that rents will rise, relative to what they otherwise would have been.

These tax provisions, of course, do not show up in the accounts of government. Perhaps for this reason they are often forgotten. The tax revenues that are foregone as a result of exempting certain income from taxation are, however, enormous: they dwarf all regular expenditures on housing. Under only one provision, the non-taxation of the flow of services from housing, the foregone revenue was calculated to be between $120 million and $200 million on 1966.[29] In that year, subsidies for public housing on a rent-geared-to-income basis by all governments totalled only $5 million. By 1974, rent-geared-to-income subsidies had risen to $180 million annually.[30] No estimate is available for the revenue loss in 1974, but it is certainly several times greater than the 1966 figure and to this must be added losses from the exemption from capital gains taxes of the income from sale of owner occupied housing and the deductibility of the Home Ownership Savings Plan contributions.

Most of the benefits of the favourable tax laws probably accrue to those who already own homes, other than in the case of the Home Ownership Savings Plan; benefits accrue to those who are insulated from the problem of accommodation costs.

A further criticism of these tax regulations is that they are of greatest benefit to those with higher incomes. The higher the individual's marginal personal tax rate, the greater are the savings from the tax concessions to housing. The system treats homeowners more and more favourably as their income rises, and is obviously very inequitable.

The Council feels that the continued existence of the biases under our tax laws in favour of home ownership should be subjected to close scrutiny. The gradual development of a more neutral treatment of incomes from all sources deserves to be considered among those programs attempting to solve the housing problem.

Numerous reforms might contribute to achievement of a more neutral tax system. The exemptions of gains realized on the sale of a principal residence from capital gains tax might be reassessed and removed or reduced. The imputed income from housing assets might be taxed, although it would probably be administratively difficult.[31]

The Council feels that there is a procedure which would be administratively simple and would ensure neutral tax treatment of income from various forms of savings, and that it deserves serious consideration: under this procedure a certain fraction of the payment of housing rent would be treated as an interest payment (the landlord would treat this fraction as interest earnings). In calculating income subject to tax, a taxpayer could deduct interest paid from interest earned. A taxpayer would then be indifferent between placing his savings in a house or, on the other hand, renting a house while placing his savings in other assets. Proposals to develop a more neutral tax system are discussed in more detail in Appendix B.

It has been suggested that one remedy to the problem of high shelter costs would be to permit the deduction of mortgage interest and property taxes when calculating income for tax purposes. The effects would be similar to those of the existing tax advantages — homeowners would receive more favourable treatment than renters; the benefits to higher income homeowners would be greater than to lower income homeowners; housing prices would probably rise and many benefits would accrue to existing homeowners. In the long run, although supply would probably increase, the benefits would be regressively distributed. If the flow of services from houses were taxed, the deduction of mortgage interest and property taxes would be permitted as expenses incurred in the process of earning income.[32] But the house owner should not have it both ways.

The Canadian tax laws contain other provisions which benefit investors in real estate: owners of rental properties may depreciate rental buildings for tax purposes at a rate significantly greater than the decline in the market value and in fact, for a number of years the building may actually gain in value; depreciation can be deducted from rental income with the result that tax payments may be postponed until the building is old. There is also a complex series of regulations governing the timing of revenues and deductions in computing income from real estate development for the taxation year. These also contribute to substantial tax postponement.[33]

In the December 1974 federal budget, a special regulation that had been in force prior to the new *Income Tax Act* of 1972 was readopted; it is of substantial benefit to investors in rental apartments. It permits losses created by depreciation deductions on new rental housing units started before December 1975 to be written off against income from other sources. High income individuals can use this provision to shelter income from tax. With proper leverage between equity and debt, the taxpayers' equity participation can be provided with money that would otherwise have gone to taxes.

The effect of these provisions is to increase, in the short run, the after tax rate of return to corporations and individuals investing in the construction of buildings and rental accommodation. In the longer run, as more capital is attracted into the housing sector, output presumably will be increased and the after tax rate of return in all sectors will be the same. The supply of rental housing will have increased; rents will have decreased, relative to what they would have been.

Regulation of Housing Development

Another area of government activity with a significant effect on the price of shelter is the regulation of housing developments.

A proposed plan of subdivision must be approved by the Ministry of Housing, by regional authorities in certain instances, and by the municipality involved. Eventually the plan must also be approved by the Ontario Municipal Board, a provincial administrative tribunal. At the provincial level there are almost forty bodies, each with their own regulations, which can criticize a draft plan of subdivision.[34]

There are eight Ministries whose responsibilities directly affect a housing subdivision. They include the Ministry of the Environment, affecting sewage and water services; Education, affecting schools; Transportation and Communication, affecting roads; Health, affecting occupancy standards; Natural Resources, affecting recreation and crown lands; Treasury, Economics and Intergovernmental Affairs, affecting local finance; and Housing, affecting regional planning.

At the municipal level a draft plan may be criticized by as many as twenty agencies.[35] There are extensive regulations regarding road construction, pipes, sewers, all aspects of the engineering design, lot size, lot setbacks, garages, utilities, easements and even the sodding of the lots. All construction must comply with the building code.

Most of the regulations have been created to improve the quality of housing and not to influence the supply of or demand for housing. Each may have only a minor effect on the aggregate level of housing construction. The Council believes, however, that collectively they have a significant influence.

There has been much recent comment on this situation. It is usually referred to as 'too much bureaucratic red tape' and is often cited as a primary cause of the high cost of shelter.

The arguments that the regulations have led to rising housing prices are of three sorts.

The first asserts that the regulatory process has increased the cost of supplying new housing and, as a consequence, has reduced the supply of both single and multiple unit housing. The regulatory process demands the extensive use of lawyers, planners and even lobbyists to move a proposal through to approval. The time absorbed by the process imposes extra carrying costs; uncertainty about the length of the delay increases risk. All these factors, it is argued, reduce housing supply and, as a consequence, prices and rents rise.

The second argument asserts that regulations have forced the construction of very high quality, large structures, particularly for single family houses. It becomes impossible to build a house under the regulations for less than $35,000. More "units of housing services" are embodied in every house.

The proper analysis of the effect of such regulations on housing prices demands a more sophisticated assessment than is possible in this report. A casual analysis suggests that the regulations preventing the construction of lower quality houses reduce supply and so, in fact, tend to increase prices.

The third argument contends that many of the servicing standards established at the provincial level, particularly with respect to sewer standards, are applied consistently across the province, and this allows no possibility of adaptation to local conditions. The high standards, generally appropriate for large cities, restrict the supply of housing in smaller communities and especially in Northern Ontario.

The arguments all have validity. In the opinion of the Council, however, an equal cause of the slowdown in approvals for new developments is the reluctance of local governments to accept new developments within their jurisdictions: the problem is as much political as bureaucratic; red tape is a means of achieving a political goal.

The reluctance is the product of many factors. A general anti-growth sentiment is being voiced in almost every city. Development is slowed to permit an assessment of how the citizens wish their city to develop. Restrictions on new developments increase the value of existing properties and city councils are influenced more by owners than tenants or prospective new residents.

New developments demand heavy social capital expenditures, particularly for schools, roads, and sewers, and existing residents are unwilling to pay higher taxes to finance these expenditures. In certain cases, the existing residents probably would be willing to pay the higher taxes if they were not raised through the property tax, which is felt to be an inequitable tax instrument.

There is in fact, much debate among economists regarding whether the property tax is indeed regressive, as the public perceives it to be. There is an emerging concensus that the tax is probably neutral and may even be slightly progressive.[36]

In other cases the local community cannot borrow the funds to undertake the capital expenditure, although willing to pay taxes to amortize the debt.

In response to these situations, under subdivision agreements municipalities have required that developers install many of the capital facilities and, as well, pay cash imposts toward future costs. This sytem has perhaps, increased the supply of housing in regions where local governments could not raise the capital, but it also has increased the market price of a house. Instead of buying a lower priced house with the higher taxes needed to pay off an increased municipal debt, a household purchases a higher priced house on which the taxes are somewhat lower; this will be exacerbated if higher quality services than those which would have been installed by a municipality were required of the developer.

The system also raises carrying costs because the mortgage rates of households are higher than municipal bond rates.

The Council feels that there is a need for reform of the current method of financing the social capital costs of new developments. Consideration should be given to the establishment of an alternative method of financing. The method should place the burden on the new residents, to the extent that they are beneficiaries of the new capital installations, and on existing residents to the extent that they are beneficiaries; it should not, however, require the new resident to finance his share of the costs through a personal mortgage.

Local councils are often reluctant to approve developments in which the assessed value of the new units would be below that of the entire community. Services provided by local governments — police or fire protection, recreation, street construction and maintenance and garbage collection — benefit each housing unit equally. Educational expenditure benefits a housing unit in proportion to the number of resident children. The benefits of local expenditure are enjoyed equally, while local taxes are collected in proportion to assessed value. In order that a new resident pay his share, the assessed value of his home must be as high as the average. For family housing, (detached housing) the assessed value must be above the average due to the educational benefits enjoyed. Municipalities, therefore, pass zoning laws to ensure that new developments have large lots and so necessitate expensive housing. Those with the greatest housing needs — low and moderate income families — find that little housing which they can afford is being built.

The reluctance to accept developments for anti-growth reasons and for reasons of tax costs are beggar-thy-neighbour policies. The self-interested decisions of individual local governments result in tremendous social costs when considering the entire province.

The Council is of the opinion that this situation can best be overcome by a system of financial incentives which will establish a coincidence between new development and the policies municipalities will adopt; the Council feels that the existing system of provincial grants to local government should be examined with a view toward developing such a system of incentives.

Finally, a number of government activities which can be grouped together because their principal effect is on the land market, should be considered.

Land prices have been escalating rapidly in recent years. It has been estimated that in Toronto from 1961 to 1971 the cost of materials used in a new home rose 45 percent, the cost of labour rose 100 percent and the cost of land rose 140 percent. In Kitchener the cost of materials rose 45 percent, labour 67 percent and land 280 percent.[37] There are many explanations for this phenomenon. It is however, important to remember that the demand for land is a derived demand. It is demanded because it is an input into such final goods as housing or manufactured goods which consumers purchase. All the factors discussed previously, which increase the demand for housing, also increase the demand for land.

Land Speculation and Land Transfer Taxes

The *Land Transfer Tax Act* and the *Land Speculation Tax Act* have been the most direct attempts by the provincial government to reduce the rate of increase in land prices. Both were introduced in 1974. The land transfer tax imposes a 20 percent tax on the value of land and buildings sold to a non-resident of Canada. The intent is to raise the price of land to non-residents and so reduce their demand for Canadian land; as a consequence non-resident ownership should be discouraged and the price of land should fall.

The exemptions permitted under the *Act* are broad and include land acquired for development and resale for residential, commercial and industrial purposes or for the purpose of establishing any active commercial or industrial business. In effect, the *Act* covers only the purchase of raw land, or long term leases, when no improvements are contemplated and the purchase of recreation property. To date collections under the *Act* have been negligible. Although one might argue that the activities subject to tax have been stopped, as was desired, it is also true that only a small component of the non-resident demand for land is subject to tax. The price of land probably has been almost unaffected, except the price of recreation land.

The land speculation tax imposes a 20 percent tax[38] on the increase in value realized on the sale of certain designated land and buildings. The intent of the *Act* was to reduce the escalation of land and housing prices by discouraging speculation. Although the *Act* applies to all sales, again the exemptions are broad.[39] In effect, the *Act* only applies to vacant land sales where no substantial improvements have been made or are about to be made, to transactions in houses which are not the vendor's principal residence and at a reduced rate on transactions in apartment buildings owned for less than ten years.

The collections under the *Act* have been small, although those activities subject to the tax have probably been curtailed. It is questionable, however, whether those activities subject to tax had contributed greatly to rising land prices. Economic theory suggests that small scale speculators

generally mitigate fluctuations in real estate values. In certain cases, speculation can lead to increases in prices over the short run as non-speculators observe speculative activity and assume prices will continue to rise. These expectations have probably been curbed by the imposition of the tax. However large scale developer-speculators can escape the tax by holding the land and eventually building on it; small scale speculators do not have the financial capability to do this. In the long run the *Act* will probably lead to a larger proportion of the supply of housing being produced by a few large firms.[40]

The *Act* does not address the more important problems of market power and collusion. Firms in the land market, which are not simply speculators, can influence price if they hold a significant portion of the available land. By holding land off the market, price can be maintained above that which would prevail if many people held the land.

Although around most cities the land capable of being developed is held by many persons, making the likelihood of this behavior very small, there may exist certain types of land which due to servicing, location or zoning, are held by few firms. In such cases there exists the opportunity to affect price by holding land off the market.

The Council believes that while no proof has been advanced to show market power or collusion has increased prices, the belief is so widely held that a systematic public study of the issue is required; the Council is sponsoring two projects which, in part, examine the issue.

At the centre of many explanations of high land prices is the claim that there is a shortage of serviced land. Explanations for the shortage differ and, as a consequence, cures also differ: if a shortage is caused by regulations, cut the red tape; if it is caused by municipal reluctance to install services, increase grants or pressure municipalities from the provincial level; if it is caused by landowners holding land off the market a number of responses are possible.

Vacant Land Taxation

For example, taxation measures can be introduced to increase the costs of holding vacant land. Site value taxation imposes a property tax as though a parcel of land were developed to its full potential. Vacant land taxes simply place an extra tax on vacant land.

The federal government recently changed the income tax laws to effectively increase the carrying cost of land.[41] In the short run, such measures result in the taxes being capitalized in the land values. Land values fall and existing land owners suffer a capital loss. The taxes have the effect of reducing future prices received by landowners and this may lead them to offer land in the market sooner than would otherwise have been the case. However, in jurisdictions where these taxes have been instituted, there have been considerable problems of regulation and administration and they have resulted in the pace of land development being slowed.[42]

Land Banking

Land banking is another remedy frequently suggested as a control on land prices.[43] The policy attempts to ensure a continual supply of land for housing, and so attempts to reduce fluctuations in land prices and reduce the price of land. In the short run, the establishment of a land bank increases demand and raises prices. In the long run, if land markets are currently affected by a few large firms, government land banking can increase the supply of land and reduce prices. If land markets are currently competitive, the supply and price of land will be unaffected, unless government loses money on its net land transactions. By massive involvement the price of land could be reduced, but only in the short run. Potential housing land would revert to other uses which paid a higher return.

Land banking is best justified in cases where development firms possess market power or are colluding. This situation has not been proven; should its existence be demonstrated the Council is of the opinion that more appropriate methods exist to deal with the problem.

Land banking is more frequently justified on the ground that it produces a more socially desirable land use pattern. The creation of new towns and macro-planning of land use at the provincial level are also tools to this end. Assessment of the need for and success of these programs is beyond the scope of this paper. It should be noted, however, that such policies frequently reduce the supply of developable land near a city and also give benefits to certain houses which are capitalized at higher prices.

It is ironic that the question of collusion and market power now permeates the policy debate over high land costs, while such government activities as the long regulatory process, the requirement that developers finance municipal services and the land speculation tax all tend to increase concentration.

Provincial Land Servicing

Another frequently heard explanation for the high price of land is that conversion of land from rural to urban use has been held up by inadequate servicing. Major investments for water supplies, trunk sewers and sewage treatment facilities have not been undertaken by the province. The impact of the lack of secondary services supplies by the municipalities was discussed earlier in this report.

The failure to install the services is probably not due to financial constraints. C.M.H.C. has a program offering loans for up to 66 percent of the cost of a storm trunk sewer or a sewage treatment plant. The shortage seems to be more the result of inadequate forward planning and a desire to restrain major infrastructure investment until the overall provincial development plan was established. The heavy use of C.M.H.C.'s program in recent years (see Table 2) suggests that major projects have been started. Unfortunately, comprehensive province-wide information on the capacity of existing primary services is not available.[44] An assessment of how the shortage of primary service capacity has influenced housing prices cannot, therefore, be made.

The Council feels that the development of this information for assessment is essential and that, as a matter of policy, primary services should always be available well in advance of anticipated need.

INTERGOVERNMENTAL RELATIONS

The final issue to be considered is the matter of intergovernmental relations in housing policy. Perhaps in no policy area is the involvement of the three levels of government so extensive. Both the federal and provincial levels of government have major programs that seemingly were developed independently. The locus of final responsibility for housing policy is not clear. Criticism of housing policy is constantly diverted by claims that problems are the fault of the "other" level of government. The incentive to correct bad programs is reduced. Programs are duplicated and the costs of such duplication probably are considerable.

It would be naive to argue that one level of government should be assigned exclusive responsibility for housing. Canada is a federal state. However, a more distinct division of housing policy responsibilities may well be possible.

The Council is very conscious of the history of attempts to rewrite the *British North America Act*, and the history of federal/provincial negotiations in other social policy areas; this may not engender confidence that changes will be effected. However, in the Council's opinion, a clearer delineation of responsibilities is worth considering.

Perhaps the federal level of government should focus less on the development of programs to provide housing directly; it might focus more on those problems that bear on increasing the overall supply of housing — problems related to issues of credit cost and availability. If federal resources were still required to support housing projects, this would be done through block funding to the provinces. Duplication would be reduced.

It might also be better if the exercise of federal responsibility for income distribution were accomplished through efforts to integrate a shelter allowance idea into the income security system, rather than through programs designed to directly provide housing.

Under such an approach, provinces would be assigned the major responsibility for housing. This is probably valid, as effective social programs must be tailored to local needs. In receipt of block funds from the federal government for low income housing, the Province of Ontario would assume responsibility for its construction. Housing programs directed toward middle income persons would be exclusively the responsibility of the province. The province would be held responsible for all constraints on supply other than mortgage credit.

Such a division of responsibilities might do much to improve the execution of present programs and the development of new programs.

IV. SUMMARY AND MAIN POLICY ISSUES

1. The public and most governments hold the view that there is a serious housing problem. Housing prices, including the prices and rents of houses and of apartments, are felt to be too high. (see page 5 in the text)

2. In recent years, the cost of shelter, particularly in the larger cities, has been rising more rapidly than personal disposable income and the general price level. The rising price of houses is a problem that centres largely on moderate income families; the rising rents of apartments are a problem for low and moderate income households, both families and individuals. For those households which own homes, the rising price of detached houses does not present a problem; indeed these households enjoy a gain relative to those who do not own homes. (see pages 6 - 9 in text)

3. The prices and rents of houses and of apartments, as with any commodity, are determined by the interaction of supply and demand in a market. All the usual factors which influence the demand for and the supply of a commodity influence shelter prices. Because of its effect on the monthly carrying cost of a mortgage, the mortgage rate of interest is of particular importance on the demand side. The cost of labour, the cost of building materials and the cost of serviced land, which has recently been rising more rapidly than the cost of any other input, is of particular importance on the supply side. Unlike most other commodities, the price of accommodation is strongly influenced by the location of a house, and advantages which a house or apartment enjoys relative to other houses or apartments. Part of the rise in shelter costs seems explicable as a normal part of urbanization and the growth of cities. (see pages 9 - 12 in the text and Appendix A)

4. The concern over shelter costs may, for the purpose of analysis, be separated into a number of component parts, each of which implies a different type of policy. One part of the housing problem seems to be that, given the incomes of people and the cost of shelter, certain households do not have enough income to purchase what society feels to be a sufficient quantity of housing. From this perspective, the consumption of housing could be raised to the level deemed appropriate by redistributing income to those whose consumption is insufficient. One way to redistribute income is to provide housing at below market price; another is provide cash to increase relevant incomes. Irrespective of whether the housing assistance is in cash or in kind, it is important that it is equally available to persons in similar income and family circumstances and that the assistance be integrated into the social security system. (see pages 12 - 13 in the text)

A second part of the housing problem would appear to be that the price of shelter is high relative to what it would be in the situation of a normally functioning market economy. The goal of housing policy in this case is to remove those impediments which restrain the supply of housing. (see page 13 in the text)

A third part of the housing problem would appear to be that, even when incomes are adequate (all incomes might even be equal) and no impediments exist, individuals do not consume what society judges to be sufficient amounts of housing or, a more frequently held view, individuals do not own homes as frequently as society deems appropriate. Each individual household does not realize the broader benefits to society of their living in better accommodation or owning a house. From society's perception of what is "best", collectively people do not spend enough of their incomes on housing, or not a high enough fraction of the housing stock is owner occupied. If insufficient housing is consumed, the goal of policy is to transfer some of society's resources to produce housing. If more owner occupancy is desired, the goal of policy is to alter the ownership patterns of the stock of housing (see page 13 in the text)

The Council is of the opinion that the first two components of the housing problem are the most significant.

5. Until the middle of the 1960's the principal housing programs (the mortgage insurance program and the residual lending program) were designed to expand the output of housing. Both sought to increase the availability and to reduce the cost of mortgage credit used for residential construction. Both programs seem to have lead to increases in the stock of rental buildings and single detached homes, and to have enabled many families to purchase a home. The principal beneficiaries of these programs have been middle income families. Although certain programs, such as the establishment of a mortgage exchange corporation, might slightly reduce the cost and increase the availability of credit, the main impediments to housing supply do not appear to be in the mortgage market. (see pages 15 - 19 in the text)

6. After the middle of the 1960's the main housing programs adopted reflected a concern with equity — a concern with the redistribution of income. Many of these programs were designed to meet the needs of those on very low incomes. Originally public housing was the principal program of this type. In response to many criticisms, the building of public housing has been reduced and replaced by programs which encourage the construction of rental buildings that have one quarter of their units available for subsidized tenants. This evolution has successfully met many of the criticisms, but it has not ensured a steady supply of new housing units for low income families. Only about 9 percent of those eligible through age or income receive rental assistance. The programs are inequitable — they provide a large benefit to a lucky few and nothing to others with similar income and family circumstances. (see pages 19 - 22 in the text)

7. Rent control is frequently suggested as a program to assist both low and moderate income tenants. The Council feels that rent control is an inequitable method of redistributing income and that the program would lead to a decline in new construction, the deterioration of the existing rental stock and the conversion of rental units into units for ownership. It is felt to

be an inappropriate mechanism to deal with the general problem of rising rents in a market economy. However, under a regime of wage and price controls, it is obviously necessary to include rents. (see pages 23 - 24 in the text)

8. There have been a number of programs to encourage the construction of homes for ownership. The principal beneficiaries of these programs have been middle income families: down payments and monthly carrying costs place home ownership beyond the reach of low income families, even with the programs. The level of subsidy under these programs can be very high. Only a small fraction of those eligible participate. Insofar as these ownership programs are a mechanism to overcome the impediments to the supply of housing, the Council feels that they are appropriate; insofar as they redistribute income from the general population to new home purchasers, the Council has reservations about the equity of the programs. Certain of these redistributive programs, in particular the short term home purchase grants, have probably increased the price of detached houses. (see pages 24 - 28 in the text)

9. Most of the housing programs appear to be inequitable because they offer unequal benefits to households in similar circumstances and, in addition, they do not provide benefits on the basis of need. In the view of the Council, a shelter allowance scheme, under which a household would receive a coupon for the purchase of accommodation in the private market, merits serious consideration as a mechanism for the provision of housing assistance. The coupon could be used to pay for the rental of housing, for the purchase of housing, for expenditures on maintenance of housing, or for property taxes. Such a scheme could gradually replace most existing programs which provided housing assistance through income redistribution, including rental housing programs for low and moderate income persons and home ownership programs.

Although the Council generally favours cash transfers to assist low income persons, it feels, in the case of housing, that a coupon system is more appropriate because of the importance of ensuring that a certain minimum of housing is obtained. Concern with this minimum is caused by a desire to house the recipient's family adequately and further, by a recognition that if this minimum were not obtained society would have to provide shelter.

The shelter allowance scheme is, in effect, an income support scheme; as such it should be considered in the context of the entire social security system. (see pages 28 - 29 in the text)

10. The Canadian income tax laws treat certain types of income more favourably than others, in particular the income from certain forms of asset holdings. Those households which own a house enjoy many of these favourable provisions. The Council is of the opinion that a comparison of the current tax system with the alternative of a more neutral tax system, particularly a system which would treat income from all assets similarly, should be recognized as an important part of any analysis of the housing

problem. The frequently suggested reform of permitting the deduction of mortgage interest and property taxes from taxable income would compound, rather than reduce, the amount of bias in our tax system. (see pages 29 - 32 in the main text and Appendix B)

11. The regulation of housing developments, particularly at the municipal level, has a significant impact on the supply and price of shelter. Most of the regulations have been created to improve the quality of housing. Each may have a minor effect on the aggregate level of housing construction but, together, in the opinion of the Council, they have a significant influence. The long delays and increased uncertainty combine to increase the costs of housing and reduce the quantity supplied at a given price. Many of the regulations have required higher quality houses and services than is necessary and this increases the costs of housing. (see pages 32 - 33 in the text)

12. The Council believes the slowdown in approvals of new developments is as much a result of the reluctance of local governments to accept new developments within their jurisdiction as of the regulatory process. The problem is as much political as bureaucratic. The reluctance is due to the unwillingness of existing residents to bear the burden of financing such social capital expenditures as roads, sewers, street lights which accompany a new development. There is also an unwillingness on the part of existing residents to permit houses of low assessed value, since the new residents would receive all municipal services but would pay less than the average taxpayer. The Council is of the opinion that this situation can best be overcome by a reform of the capital financing system, such that new and existing residents pay the capital costs according to how they benefit from the new development; and a system of financial incentives to local governments to establish a coincidence between municipal policy and the acceptance of new housing developments. (see pages 33 - 34 in the text)

13. There are a number of government activities which affect the raw land market including, for example, the land speculation and land transfer taxes, the taxation of vacant land, and land banking. The motivation behind most of these activities seems to be the feeling that there exist impediments to the supply of serviced land which can be overcome by government intervention. The most frequently cited impediments are speculation, the market power of a few firms and collusion among firms in the land market. Emphasis should be placed on verifying the existence and nature of these impediments in the development of housing policy. The Council is sponsoring two projects which, in part, examine these impediments. (see pages 35 - 37 in the text)

14. As in all areas of policy concern, the development and evaluation of housing policy is bedevilled by the lack of adequate data and by the proliferation of complex and overlapping programs. There is costly duplication of activities at the federal and provincial levels and a parallel ambiguity concerning the locus of responsibility for housing programs. That

these familiar criticisms are repeatedly levelled at all policy areas should not obscure the fact that considerable improvement in the efficiency of programs could be realized through meeting these criticisms. (see pages 27 and 38 in the text)

DISSENTING COMMENT

The continual concern with housing since World War II is evidence of its importance to people in this Province. It's a major problem which should be solved — the direction of the Council's report seems to be to suggest that housing should somehow take its place in some dehumanized list of market goods and be considered as is any other investment.

In my opinion, this view is wrong. Housing is a basic need — like food and health care — and must be met. In the situation we are now faced with, rent control is a must whether there is a wage control program or not. Public land-banking should have been established thirty years ago rather than permit the enormous speculative profits which we have witnessed. The waiting list for public housing is evidence that far more should have been and should now be done by public initiatives which build homes. High mortgage rates have been an enormous impediment to the building of adequate housing — every financial institution in the country should assume their social responsibility by making funds available at lower rates. Much care should be taken before we attempt to meet the housing crisis by advocating a decline in quality standards.

The shelter allowance program, in the sense that it approximates the effect of a negative income tax approach, may have something to commend it. However, to rely on it in our present circumstances, as a substitute for existing subsidy programs, would invite disaster. In the absence of direct action to achieve an effective and significant increase in the supply of low cost land and housing, it would simply put more money into the private market which, year after year, has demonstrated its inability to meet the housing needs of this Province.

Lynn R. Williams

APPENDIX A

A SIMPLE MODEL OF THE HOUSING MARKET

The discussion of the workings of the housing market in the text is based on a stock-flow model. This model is presented graphically here. The effects of the mortgage insurance program will be illustrated using the graphic analysis.

FIGURE I

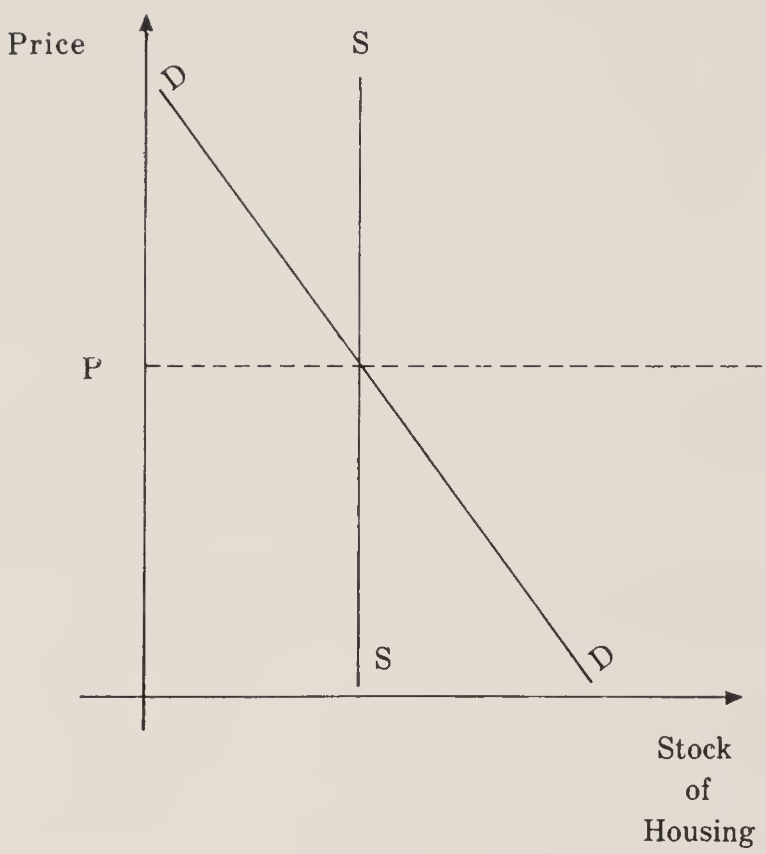
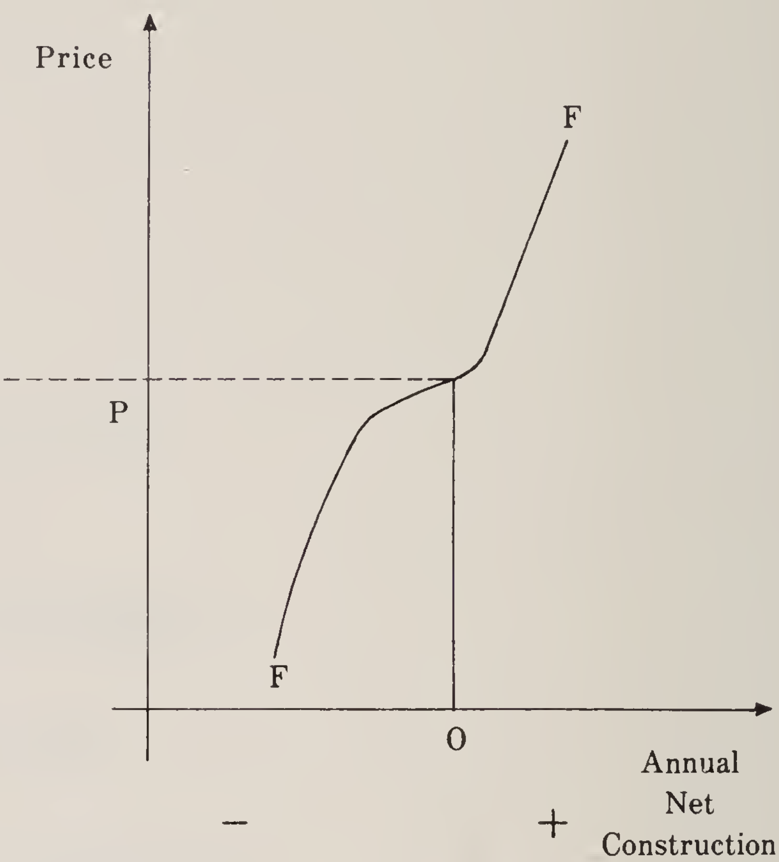


FIGURE II



All households in light of their existing incomes, prices and tastes, and their expectations of change, decide between owning a house and renting an apartment. The demands of all households seeking to purchase houses (this includes households which own their own homes and sell to themselves) are horizontally added to form a demand curve for housing services. This demand for services may be converted into a demand for housing stock as a function of the price of the stock. This demand curve is represented as curve DD in Figure I. As discussed in the text, the units for measuring the stock of houses is not the number of houses but some arbitrarily designed unit called a ‘unit of housing’.

The supply of housing stock as a function of price is represented as curve SS in Figure I. The curve is vertical. Stock owners will offer their housing on the market regardless of price.

The price and quantity supplied is established in the market as illustrated in Figure I. The annual net new construction is a function of the price of housing, and is represented as curve FF in Figure II. At low prices there will be net negative construction because houses will be allowed to deteriorate and some will be torn down. In equilibrium at price P, there will be construction sufficient to replace the depreciation of the existing stock.

At prices above P, net new construction will occur. The rate of new construction does not expand in proportion to the rise in price over P, since expansion of new construction soon faces constraints on available inputs and rising input prices. The total flow of new construction is added to the stock of housing to determine the price in the following period. The annual flow is not sufficient to augment the stock to establish the long run equilibrium price in the next period. Complete adjustment to change takes several periods.

A similar model lies behind the discussion of the rental market. The two markets are closely related. Households, in deciding whether to own or rent, consider both rents and housing prices.

Consider how this model can be used to analyse the impact of a program. The mortgage insurance program reduces the mortgage rate of interest and provides mortgages on more attractive terms. The demand curve DD shifts up to D'D' up as in Figure III, since households face a lower monthly carrying cost for a given house price. The program shifts the FF curve very slightly downward as in Figure IV since builders have lower construction costs due to the reduced mortgage rate. The shift in the demand curve results in a new price of P1, which, in turn, causes net new construction of Q units. In the next period the Q units are added to the housing stock resulting in a shift to the right of the SS curve. In the long run the price will fall—as SS moves out—until actual new construction just matches depreciation.

FIGURE III

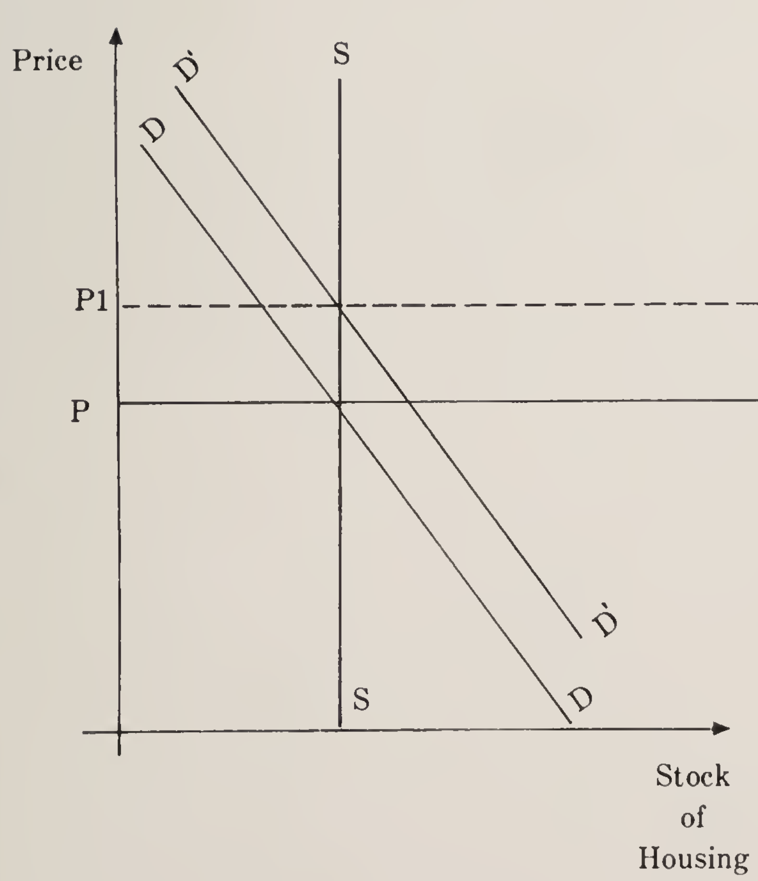
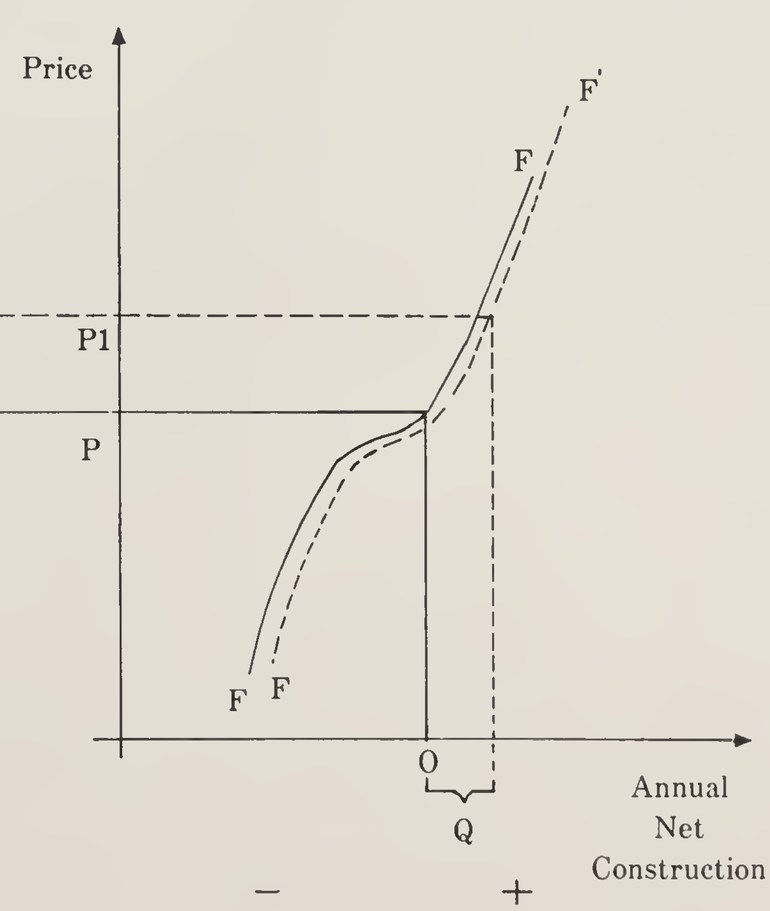


FIGURE IV



It is obvious that the analysis of the effects of a program is crucially dependent on the shape of the DD and FF curves and their sensitivity to government policy. Of perhaps most importance is the shape of the FF curve. If the FF curve is nearly vertical, price increases will lead to little new construction. Programs to stimulate supply by shifting the DD curve result only in higher prices, in the short run.

APPENDIX B

PROPOSALS TO ACHIEVE A MORE NEUTRAL TAX TREATMENT OF INCOME FROM DIFFERENT SOURCES

The discussion of the personal income tax laws in the main text argued that the existing laws contain a bias in favour of homeownership. A household, with some savings, is better off using the savings to buy a house rather than renting an equivalent house and placing the savings in a financial asset. It will be assumed here that all income from financial assets is taxable.

This bias is the result of the fact that the capital gain realized on the sale of taxpayer's principal residence is exempt from taxation, and the fact that the value of the flow of services from the house, which is income in kind to a taxpayer, is exempt from taxation. This Appendix will discuss the bias resulting from the non-taxation of the imputed income from housing services. The bias under the existing laws will be illustrated for the case of a 'typical' household. Two proposals to remove this bias will be illustrated.

The illustrations will consider a household with accumulated savings from past years of $10,000 and with a taxable income of $15,000 per annum. A taxable income of $15,000 would probably imply a gross income of almost $20,000; for example a couple with two children would have a gross income of about $19,000. The household wishes to live in a house which has a market value of $50,000. The household is confronted with a choice: it can purchase the house, using its savings as a downpayment and paying the remainder through a mortgage, or it can rent an equivalent house and place its savings in a financial asset. The costs associated with ownership of the home are assumed to be $1,000 per annum. The mortgage interest rate and the interest rate on financial assets are both assummed to be 10 percent per annum. The $50,000 house rents for $6,000 per annum. During the year there is no appreciation of the capital value of either houses or financial assets. The household is assumed to have an average and marginal tax rate of 30 percent. It is assumed that all income from financial assets is subject to tax. Although under existing law the first $1,000 of income from certain financial assets is exempt from taxation, this simplifying assumption does not affect significantly the following analysis.

Each illustration considers the position of the household in two situations: if the household purchases the house and if the household rents a house.

a) Existing Situation

The household, should it decide to purchase a house, pays no tax on the imputed income from its housing asset. The household, should it decide to rent, pays tax on the income from financial assets.

	Owner	Renter
Income		
Earnings	15,000	15,000
From Financial Assets	—	1,000
Imputed From Housing Assets	(1,000)	—
Taxable Income	15,000	16,000
Taxes	4,500	4,800
Disposable Cash Income	10,500	11,200
Housing Expenditure		
Rent	—	6,000
Mortgage Interest	4,000	—
Ownership Expenses	1,000	—
	5,000	6,000
After Housing Disposable Cash Income	5,500	5,200

Under existing tax laws, as illustrated above, the homeowner has more income remaining after paying taxes and housing related expenditures, than a renter of identical financial circumstances renting an equivalent house. There exists a strong financial incentive to place savings in a house.

The amount of the benefit is equal to the net imputed income from the house times the marginal tax rate of the household. The benefits are, therefore, greater the larger a household's equity in the house, and the higher the household's marginal tax rate, all other things being equal.

b) Proposal I: Include the Net Imputed Income from Housing Assets in Taxable Income

Under this proposal, the net imputed income from housing assets would be considered as income subject to tax. In calculating this imputed income, expenses incurred to earn the income could be deducted. The net income would equal the gross value of housing services less mortgage interest paid, maintenance and other ownership expenses, and probably also less property taxes. As a simplifying rule, the net imputed income might be calculated as the household's equity in the house multiplied by some specified rate of return (perhaps the mortgage rate of interest).

		Owner	Renter
Income			
Earnings		15,000	15,000
From Financial Assets		—	1,000
Imputed From Housing Assets			
Gross Value of Housing Services	6000		
less mortgage interest	4000		
less ownership expenses	1000		
		1,000	—
Taxable Income		16,000	16,000
Taxes		4,800	4,800
Disposable Cash Income		10,200	11,200
Housing Expenditure			
Rent		—	6,000
Mortgage Interest		4,000	—
Ownership Expenses		1,000	—
		5,000	6,000
After Housing Disposable Cash Income		5,200	5,200

The household under proposal I has no financial incentive to place its savings in a house as opposed to financial assets. This neutrality has been achieved by taxing all forms of income in the same fashion and, in effect, increasing the taxation of homeowners. Under such a scheme households would be encouraged, as compared to the present system, to shift from owned to rented accommodation, to own a smaller house, or to postpone the purchase of a house.

c) Proposal II: Regard a Fraction of Rental Payments As Interest Payments

Under proposal II, a certain legally specified fraction of housing rent would be treated as an interest payment (the landlord would treat this same fraction of his rent collections as interest earnings). In calculating income subject to tax, a taxpayer could deduct interest paid from interest and dividend income earned. In the illustration used in this Appendix, 5/6 of rental payments would be regarded as interest payments (because $1,000 of the $6,000 rent would be used by the landlord to maintain the property).

	Owner	Renter
Income		
Earnings	15,000	15,000
From Financial Assets	—	1,000
Imputed From Housings Assets	(1,000)	—
Available Deductions Against Interest Earned	—	5,000
Taxable Income	15,000	15,000
Taxes	4,500	4,500
Disposable Cash Income	10.500	11,500
Housing Expenditure		
Rent	—	6,000
Mortgage Interest	4,000	—
Ownership Expenses	1,000	—
	5,000	6,000
After Housing Disposable Cash Income	5,500	5,500

The household, under proposal II, has no incentive to place its savings in a house as opposed to financial assets. The neutrality has been achieved by special treatment of housing rent payments which in effect reduces the taxation of renters who have savings. Again, as compared to the current situation, the household is encouraged to move from owned to rented accommodation, or to postpone purchase.

Under proposal I a taxpayer is indifferent between placing his savings in housing, financial assets or any income producing investment. Under proposal II a taxpayer is indifferent between investing in a house and financial assets, but faces a disincentive to invest in anything which produced increased wage income, such as an investment in further education.

Under proposal I a household would be indifferent between purchasing the house and placing all its savings in the house, and purchasing the house and dividing its savings between equity in the house and bonds. Under proposal II, a household would have an incentive to place all its savings in the house. Thus proposal II does not encourage households with large savings to buy smaller houses, or to rent less accommodation.

FOOTNOTES

1. Honourable Ron Basford, *Hansard,* January 11, 1973, p. 186.
2. *Housing Ontario/74:* An Initial Statement of Policies, Programs and Partnerships, Ontario Ministry of Housing, May 1974, p. 1
3. *Living Room Report:* An Approach to Home Banking and Land Banking for the City of Toronto, Housing Work Group, December 1973.
4. Most data on the quality of the housing stock have been justifiably criticized. The concept of 'needing major repair' is too ambiguous to permit accurate data to be collected. Although the data do not permit estimation of either the precise total number of dilapidated units or the precise change from year to year, the basic trends can be deduced. See L.B. Smith, *Housing in Canada,* Central Mortgage and Housing Corporation, 1971, p. 10.
5. See *Household Facilities and Equipment,* Statistics Canada 64-202, various years for household figures. See *Canadian Housing Statistics,* various years for housing completions.

   See also *Housing Ontario/74,* op. cit., p. 1.
6. L.B. Smith, (1971), op. cit., p. 11.
7. Housing prices were taken from *House Price Trends,* Toronto Real Estate Board, various years.

   Mortgage ratios were assumed to be equivalent to those available to *N.H.A.* borrowers, *Canadian Housing Statistics,* various years.

   Interest rates were conventional mortgage interest rates taken from *Canadian Housing Statistics,* various years.

   Incomes were taken from *Census* publications 1961 (98-503), 1971 (93-724) of Statistics Canada, and from *Income Distributions by Size in Canada,* 1973, Statistics Canada 13-207, all family incomes were raised by the increase in nominal per capita income to give 1974 incomes.
8. *Toward More Stable Growth in Construction,* Economic Council of Canada, 1974, p. 158.

   The consumer price index rent component only records rent increases which occur when a tenant remains in the same apartment. It misses therefore rent increases which occur when the tenant of an apartment changes. There is reason to believe that significant increases occur at that time.
9. See *Rent Survey 1975,* North York Tenants Information Program, and *The Globe and Mail,* Friday, September 5, 1975, p. 1
10. *Housing Ontario/74,* op. cit., p. 8.
11. *Incomes Assets and Indebtedness of Families in Canada, 1969,* Statistics Canada 13-547, p. 31ff.

12. See J.V. Poapst, *The Residential Mortgage Market*, a working paper for the *Royal Commission on Banking and Finance*, Ottawa, Queen's Printer 1962.

13. *N.H.A.* insured loans have been available for the purchase of existing housing since 1967.

14. L.B. Smith, *Housing and Mortgage Markets in Canada*, Bank of Canada, Staff Research Studies, 1970, p. 58.

15. L.B. Smith, (1971), op. cit., p. 70ff.

16. The Helleyer *Task Force on Housing and Urban Development* (*1969*) recommended the creation of such an institution. The Mortgage Exchange Corporation has been promised on several occasions by the federal Minister of Urban Affairs.

17. L.B. Smith, (1971), op. cit., p. 69.

18. See M. Dennis and S. Fish, *Programs in Search of a Policy*, A.M. Hakkert, 1972, p. 129.

    The buyback arrangement was available to C.M.H.C. in 1946, to stimulate construction of housing for veterans.

19. *Tenant Income Data Report*, October 31, 1974, Ontario Ministry of Housing.

20. See *Canadian Housing Statistics*, Central Mortgage and Housing Corporation, 1970, Table One, p. 1, and Table Forty-five, p. 40.

21. *Housing Ontario/74*, op. cit., p. 37.

22. *Housing Ontario/74*, op. cit., p.40. The subsidy per unit was computed by dividing the total federal, provincial and municipal subsidy bill by the number of units.

23. See *Is there a case for rent control?*, Background papers and proceedings of a Canadian Council on Social Development seminar on rent policy, January, 1973, p. 8ff.

24. Initially the purchaser could obtain a lease for the land and was restricted in the manner in which he could resell the land.

25.. In areas not served by the H.O.M.E. Plan, the Preferred Lending Program will provide high ratio loans at favourable interest rates to builders who are prepared to build and sell houses within the H.O.M.E. Plan guidelines.

    Attractive financing arrangements and land for lease are available to builders of condominiums which would be sold to households eligible under the H.O.M.E. Plan.

26. The federal Minister of Housing recently announced proposals for changes in the A.H.O.P. program. Under the proposals, the present program would be retained, but additional households would be made eligible. These additional eligible households would be couples, with no children. There would be no income constraint on eligibility. For these households, interest free loans would be available to reduce the mortgage rate of interest to 8 percent when new homes below a certain price range were purchased.

27. See P. Streich, *Income Support and Shelter Subsidies: The Role of Housing Policy*, 1973, Policy Planning Division, Central Mortgage and Housing Corporation, p. 35. In 1969, a shelter allowance proposal was part of a package of revisions to general welfare assistance programs proposed by the federal Department of Health and Welfare. The shelter allowance proposal was shelved, not out of opposition to the concept but rather because more information was required to evaluate the cost and economic effects of the program

28. The first $1,000 of income from certain financial assets is no longer subject to tax.

29. Harry Kitchen, "Imputed Rent on Owner-Occupied Dwellings", *Canadian Tax Journal*, Vol. XV, 1967.

30. See Table 1.

31. *The Royal Commission on Taxation*, 1966, felt the imputed income from home ownership should be a part of the tax base, but recommended against its inclusion on grounds of administrative difficulty. See Chapter Eight, Volume Three. The main administrative barrier—establishing the market value of a home—will be removed in Ontario when the provincial market-value assessment is completed.

    From 1952 to 1963 the British government taxed the imputed income from home ownership. After 1963 this income was again exempted in an attempt to encourage new home construction.

32. If the property tax is regarded as a benefit tax this deduction would not be permitted.

    The deduction of property taxes is often supported on grounds that it would be of assistance to financially pressed local governments, and that it would remove double taxation. There exist far more effective means of assisting local government. The double taxation argument has some validity, but it seems hard to believe that removal of the double-taxation would reduce personal income tax collections, even in the short run.

33. See, *The Real Estate Development Industry in Canada*, 1974 Survey of Financial Reporting and Accounting Developments based on 1973 reporting. Price, Waterhouse, & Co.

34. *Advisory Task Force on Housing Policy*, Queen's Printer for Ontario, August 1973, p. 38.

35. *Advisory Task Force on Housing Policy*, op. cit. p. 38

36. Henry J. Aaron, *Who Pays the Property Tax? A New View*, The Brookings Institution, Washington, D.C. 1975.

37. *Developments in the Cost, Supply, and Need for Housing in Ontario*, Peter Barnard Associates, April 1973, Background Report Prepared for the Ontario Advisory Task Force on Housing Policy.

38. The tax began as a 50 percent levy. It was reduced to 20 percent when the federal government refused to permit deduction of the tax in calculating income subject to federal tax.

39. The exemptions are listed in the *Act*. A discussion of the exemptions is available in "The Ontario Land Speculation Tax. An Overview: Some Problems Areas" a paper presentated by R.M. Anson-Cartwright to the Canadian Tax Foundation Conference 1974.

40. For a further discussion of the effects of the tax see "The Economic Implications of the Land Speculation Tax", a paper presented by Lawrence B. Smith to the Canadian Tax Foundation Conference 1974.

41. Losses incurred due to the carrying costs of land cannot be deducted in the year incurred, but must be capitalized and deducted when the property is disposed of.

42. *Advisory Task Force on Housing Policy,* op. cit., p. 46.

43. It is also justified as a tool for improved planning.

44. *Advisory Task Force on Housing Policy,* op. cit., p. 48.